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SAFE Working Paper No. 341 | February 2022

Leibniz Institute for Financial Research SAFE

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Electronic copy available at: https://ssrn.com/abstract=4039554

The Limits of Joint-Institutional Frameworks for Sectoral Governance in EU-Swiss Bilateral Relations: Lessons for future relations with the UK

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Abstract

Joint Institutional Frameworks in bilateral relations are circumscribed in policy scope, can lack adequate instruments for dynamic adaptation and provide limited access to decision-making processes internal to the contracting parties. Informal governance, the involvement of private actors as well as rules such as equivalence provide avenues to remedy these limits in bilateral relations in sectoral governance. Through bilateral agreements, the scope of territorially bound political authority is expanded. The formalised and institutionalised frameworks and bodies established are, however, frequently accompanied by mechanisms of informal cooperation and special rules either to cover policy fields where no contractual relation exists, to provide for flexible solutions where needed, or to involve both public and private actors that otherwise do not have access to formal decision-making bodies. This SAFE working paper conceptualises formal and informal modes of cooperation and varying actor constellations. It discusses their relevance for the case of bilateral relations between the European Union (EU) and Switzerland in sectoral governance. More specifically, it draws lessons from EU-Swiss sectoral governance of financial and electricity markets for the future relations of the EU with the United Kingdom (UK). The findings suggest that there are distinct governance arrangements across sectors, while the patterns of sectoral governance are expected to look very much alike in the United Kingdom and Switzerland in the years to come. The general takeaway is that Brexit will have repercussions for the EU's external relations with other third countries, putting ever more emphasis on formal and rule-based approaches, while leaving a need for sector-specific cross border co-operation.

[1] I gratefully acknowledge financial support from the LOEWE Center SAFE (Project #21136). When writing and researching this Working Paper I held a COFUND-AIAS fellowship (European Union Horizon 2020 Research and Innovation Programme Marie Skłodowska-Curie grant agreement no. 754513 and Aarhus University Research Foundation, October 2019-October 2022) awarded by the Aarhus Institute of Advanced Studies (AIAS).

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Introduction

Bilateral agreements are an important tool for the European Union (EU) to govern its external relations. Alongside the formal Joint Institutional Frameworks (JIFs) governing relations there are often forms of informal cooperation and the involvement of private actors in sectoral governance for areas which are not (entirely) covered by JIFs. Through bilateral agreements the scope of territorially bound political authority is expanded based on binding agreements between the contracting parties. Such formalised and institutionalised frameworks are, however, frequently accompanied by mechanisms of informal cooperation either to cover policy fields where no contractual relation exists, to provide for flexible solutions where needed, or to involve public and private actors that otherwise do not have access to formal decision-making bodies. Such arrangements are of particular relevance when negotiations on formal bilateral relations face deadlock, or when contracting partners seek to renegotiate existing relations. Sectoral arrangements complementing JIFs can thus be expected to characterise phases of disintegration.

In order to shed light on these aspects in sectoral governance, this paper addresses two core research questions. First, *what is the role of formal and informal mechanisms of cooperation in external sectoral governance complementing JIFs? And, second, when and under which conditions do private actors get involved in cross-border cooperation alongside public actors?* In doing so, the paper considers examples from the EU-Switzerland relationship. The arrangements established through the range of EU-Switzerland agreements – the so-called "Bilaterals" – constitute a quite specific type of JIF that, due to its rather static and sector-specific (particularistic) nature, leaves ample room for informal cooperation and private actor involvement. The Swiss case is, however, also interesting given Brexit, the first ever instance of EU disintegration through the withdrawal of a member state. This SAFE working paper draws lessons from the EU-Swiss case and in two areas of particular relevance for the post-Brexit relationship between the EU and the United Kingdom (UK): the financial sector and electricity markets. The working paper is structured as follows: first, it conceptualises formal and informal modes of cooperation and varying actor constellations in the EU's external sectoral governance and puts these into the context of JIFs; second, it discusses the bilateral relationship between the EU and Switzerland with a focus on sectoral governance arrangements for the financial and electricity markets; third, it draws lessons from the EU-Swiss case for relations between the EU with the UK in these areas.

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1. Conceptualising external sectoral governance

This working paper contributes to the rich literature on the EU's privileged and strategic partnerships with third countries (Gstöhl and Phinnemore, 2019; Kaddous, 2019) by focusing on the external sectoral governance that often emerges to fill regulatory gaps in areas of cross-border cooperation left unaddressed by JIFs. Previous contributions on EU external governance have highlighted an external face of differentiated integration when it comes to third country participation in sectoral bodies (Lavenex, 2015). Building on such research, it is argued here that both informal modes of cooperation and the involvement of private actors constitute governance devices to address persisting – or in the context of disintegration (Schimmelfennig and Winzen, 2020), newly emerging – regulatory gaps. While the role of private governance for the EU's internal policy-making process has been addressed in numerous contributions (Eckert and Eberlein, 2020; Knill, 2001; Lehmkuhl, 2005), its significance in the EU's external relations has attracted less attention (Lavenex, 2015).

1.1. Modes of cooperation and actor constellations

The working paper differentiates between formal and informal modes of cooperation, as well as public and private actor constellations as illustrated in Table 1. JIFs in EU bilateral agreements draw on both formal and informal cooperation, involving public and private actors in each case.

Table 1. Modes of cooperation and actor participation in sectoral governance

Mode of cooperation	**Formal**	**Informal**
Actor participation		
Public	(Option 1) access to EU sectoral body holding a regulatory mandate	(Option 2) access to informal network of national sectoral bodies
Private	(Option 3) access to private EU sectoral body holding a (quasi) regulatory mandate	(Option 4) access to informal network of private sectoral bodies

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Differentiating between these two dimensions, we are left with four options of cross-border sectoral cooperation, assuming that the latter is not (fully) covered by other mechanisms under JIFs. The first option is to grant public actors from third countries access to EU sectoral bodies such as EU regulatory agencies. The provision of such access is generally limited (Lavenex, 2015), which means that third country actors may seek access to informal networks of national sectoral bodies instead (option 2). Where no established mechanisms of cooperation are available to public actors, private governance (options 3 and 4) may be an alternative. Private governance thus is understood in a broad sense in this paper, involving both formal and informal processes of cooperation. In option 3, third country private actors would be granted access to a private EU sectoral body holding a regulatory mandate. As with option 1, however, such access may not be granted to third country private actors. Third countries may thus seek to have access to an informal network of private sectoral bodies instead (option 4).

Third country access to EU sectoral bodies such as regulatory agencies is usually limited. As a rule of thumb, it can be argued that external participation in sectoral bodies (option 1) gets more constrained the more a policy area is subject to supranational centralisation (Börzel, 2010). In these areas informal and thus more flexible governance mechanisms have over time been replaced by formalised and centralised modes of governance, which makes it difficult to let third countries fully participate. This holds for EU regulatory agencies that have usually emerged from pre-existing regulatory networks. These networks initially relied on informal cooperation, and were often open to third countries. Once these networks hold a formal policy mandate, or become EU agencies enshrined in secondary law, they are no longer open to participation by third countries. Third countries may be granted observer status with a right to take the floor in specific circumstances, but do not hold voting rights. If access is denied or limited, access to informal networks is often a fall back option. Most EU regulatory agencies coexist with the informal networks of national regulatory authorities from which they have emerged. It is precisely the networks' flexibility to engage with external sectoral bodies (option 2) which is at least one of their *raisons d'être*.

Compared to contractual agreements that require political compromise, private governance follows a different logic. The relationship between territorially bound political forms of cooperation and technical private cooperation is at the heart of the literature on governance (Héritier and Lehmkuhl, 2008). Private actor involvement may or may not be formalised (options 3 and 4), and the coexistence of formal and informal coordination can be

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accommodated more easily by private bodies, even where they hold a quasi-regulatory mandate. In fact, such a mandate is usually motivated by an intention to fill a specific regulatory gap (Eberlein and Grande, 2005). Lateral shifts of competence towards private actors can be observed inside the EU in areas where there is a lack of willingness to delegate further competencies to the supranational level, but a pressing need for cross-border cooperation for technical or economic reasons exists. The emergence and consolidation of private authority has therefore to be considered as a hidden path of integration (Eckert and Eberlein, 2020). This applies in particular in instances of politicisation and disintegration. Since private governance is much more driven by the functional needs of cooperation rather than the more political, territorially bound type of intervention, there is reason to believe that private regulatory bodies will be more open to accommodate the interests of third parties where the latter dispose of important resources such as information or market power. In external sectoral governance, this gives private governance a comparative advantage in terms of inclusiveness over public modes of cooperation.

1.2. Sectoral governance and JIFs

The degree to which deeper integration inside the EU involves adaptation pressure for third countries depends on the kind of bilateral relationship. This is usually defined through bilateral negotiations with the EU, and specific arrangements may be agreed, depending on the balance of rights and obligations. Bilateral agreements may vary significantly in their sectoral scope and depth. Moreover, they may be dynamic by requiring continuous adaptation of the third country to the evolving EU acquis, or they may be static based on the negotiated contract. Sector-specific agreements subject to continuous re-negotiation allow the third country to safeguard its autonomy, yet are intense in terms of transaction costs. A horizontal agreement comprising various policy fields with a dynamic character saves transaction costs for both sides, yet also entails a significant loss of sovereignty for the third country. In the absence of such a horizontal agreement and transversal structures, additional rules typically govern bilateral relations. Equivalence of legislation is a defining rule for the EU Swiss case, which leans towards static and narrowly circumscribed relations with limited power delegated to the EU-Swiss Joint Committees (Kaddous, 2019). Equivalence acts as an incentive for the parallel evolution of the legal orders of the contracting partners.

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As the depth of external relations typically varies significantly across sectors, it is possible to speak of external differentiation (Leuffen, et al., 2013). However, such external differentiation does not necessarily mirror the patterns of vertical differentiation internal to the EU. Indeed, the opposite can be assumed, since access to strongly formalised and centralised policy areas is limited (as discussed above for option 1). On the other hand, rules such as equivalence of legislation would require that contracting parties keep aligned with each other's regulatory developments. Moreover, alongside functional drivers of cross-border cooperation, political motives determine bilateral relations. Where certain policy questions become highly politicised, either party may seek to renegotiate existing contracts or suspend rules relying on mutual consensus. Such instances can be usefully conceptualised as cases of external differentiated disintegration (Schimmelfennig and Winzen, 2020).

1.3. Case selection and research design

This working paper discusses two instances of the EU having a special relationship with a third country: the long-standing bilateral relations with neighbouring Switzerland, and the very recent case of newly established external relations with the UK, a former member state. While Switzerland, though not being a member, has been Europeanised to a significant extent, the UK as a member state actually opted out of integration in some key policy areas, and as a third country strives for a maximum degree of policy autonomy. The cases are similar, however, in that the last decade has been one of (attempted) disintegration. Both countries have witnessed high profile domestic politicisation leading to referenda. A public vote held in Switzerland in February 2014 mandated policy-makers to curtail the EU-imposed principle of free movement in order to secure compliance with newly introduced constitutional provisions. Another vote held in September 2020 again put the question of free movement and migration from EU countries on the table, and by 2021 the negotiations on a framework agreement reached a deadlock. In the UK, the Brexit vote of June 2016 led to the triggering of the withdrawal process and the departure from the EU on 31 January 2021. Bilateral relations with the EU are now governed by the EU-UK Withdrawal Agreement that entered into force on 1 February 2020, and the EU-UK Trade and Cooperation Agreement concluded on 31 December 2020. Both cases are thus interrelated temporally, and with respect to the models discussed as a way forward for future (dis-)integration. Switzerland sought renegotiation once Brexit was looming, with attempts to loosen the ties with the EU being dubbed "Schwexit" (Gemperli, 2016). In the

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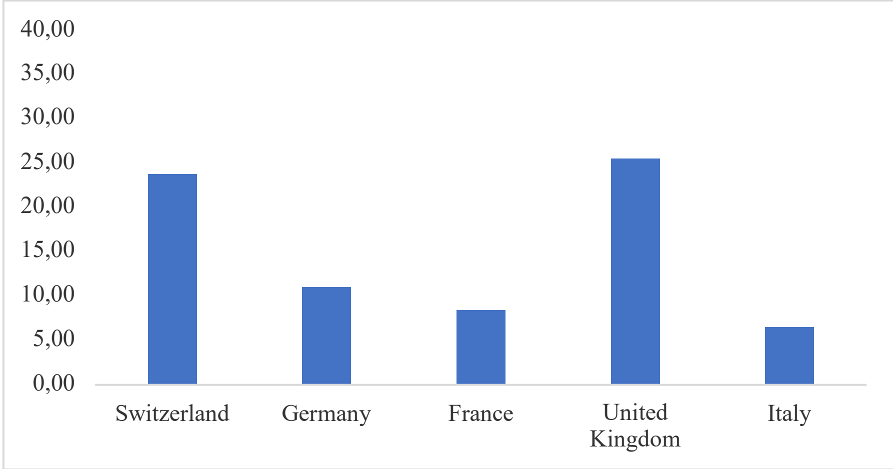
UK, Brexiteers praised the “Britzerland” model as a way forward, promising a prosperous future outside the EU (Harvey, 2016).

To discuss the lessons to be drawn from EU-Swiss relations for the UK-EU relationship, we can usefully consider modes of cooperation in two economic sectors that are of strategic importance for both the EU, Switzerland and the UK, namely financial and electricity markets. The figures below illustrate the need for cross-border cooperation with EU countries for these sectors. Both, the Swiss and UK financial sectors are more internationalised than those of large EU economies such as France, Italy or Germany, for which financial and insurance services exports serve as an example (Figure 1). There is a clear difference between Switzerland as a transit country as compared to the UK being a net importer of electricity (Figure 2).

Figure 1 Exports of Financial and Insurance Services (2019)



Insurance and financial services as a % share of services export in the Balance of Payment
Source: World Bank Balance of Payment Statistics, 2020.

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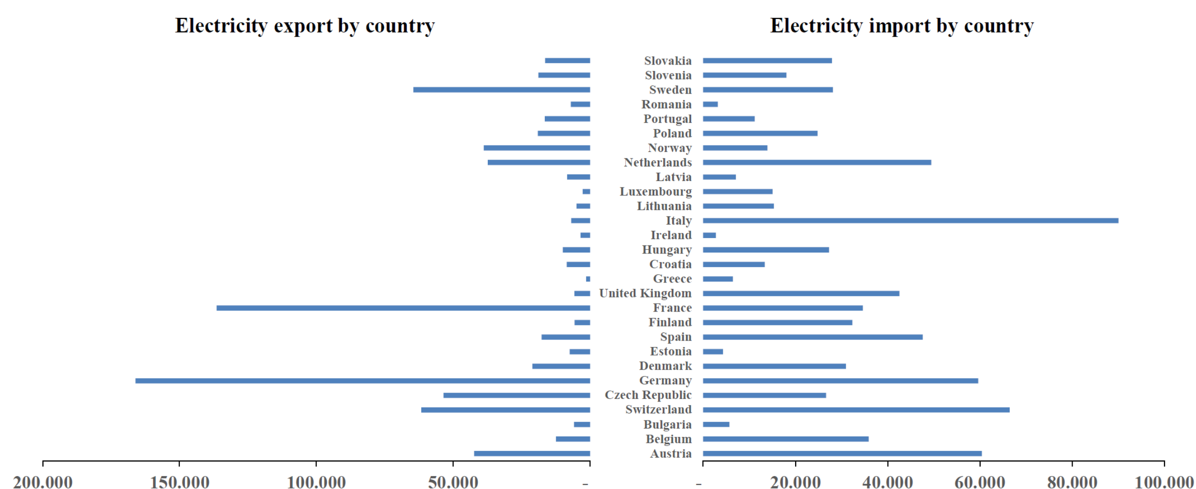
Figure 2 Electricity flows by Country (2017-2018)



Note: Excludes physical energy flows of these countries with AD, AL, AM, AZ, BA, BY, GE, IQ, IR, MA, MD, ME, MK, MT, RS, RU, SY, TR, UA

Source: Own calculations based on ENTSO-E Power statistics on Physical Energy & Power Flows https://www.entsoe.eu/data/power-stats/ (Last access: 15 February 2021)

2. EU-Swiss bilateralism and its limits: JIFs and differentiated (dis-)integration

Through more than a hundred bilateral agreements covering numerous sectors and policy areas, the Swiss have been granted a special status in EU external relations where most other treaties with third countries and regions involve a single overarching framework agreement. The Swiss case is also interesting because following a successful referendum "against mass immigration" in 2014, Switzerland sought to renegotiate the status quo in order to be able to restrict free movement. This has led to tensions where at the same time the Swiss were keen to expand the scope of sectoral agreements, for instance to include financial and electricity markets. The following sections discuss sectoral governance after briefly introducing EU-Swiss relations.

2.1. EU-Swiss relations

EU-Swiss relations are governed by two packages of bilateral agreements, signed in 1999 and 2004. A first package of bilateral agreements, endorsed by a public vote in 2000, covered the areas of free movement of people, technical barriers to trade, public procurement, agriculture, air transport and research. The second package expanded to the areas of environmental policy, agricultural products, public statistics, media, combating fraud, taxing savings incomes as well as integrating Switzerland into the Schengen and Dublin systems. Given that the first generation of agreements functions as a package, following the mass immigration vote in 2014 the Swiss

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could not unilaterally terminate the Free Movement of Persons Agreement (FMPA) without putting at risk the Bilaterals (Grolimund, 2009, pp. 24-9). The Swiss side therefore sought to renegotiate the Bilaterals on the issue of free movement throughout 2014 and 2015, but ultimately failed to secure the desired outcome. Clearly, the European Commission had its own agenda and urged the Swiss partner to commit to the Draft Institutional Framework Agreement (DIFA, discussed by Kaddous, 2019). The Bilaterals were put at risk with another popular initiative the implementation of which would have yet again required termination of the FMPA (Schweizerische Eidgenossenschaft, 2020). The public vote on the so-called Limitation Initiative held in September 2020, however, failed to secure the required support (Henley, 2020). Ongoing negotiations on the DIFA were ended by in May 2021 by the Swiss Federal Council. This move resulted from a highly politicised debate about the drawbacks of the DIFA in the areas of wage protection, state aid rules and access to the Swiss welfare state for EU immigrants (Walter, 2021).

2.2. EU-Swiss sectoral governance of financial markets

The governance of financial markets is not covered by sector-specific arrangements under the EU-Swiss JIFs since negotiations in the run up to the second package of Bilaterals had failed due to the Swiss reservations on issues such as bank secrecy. Swiss sectoral bodies such as the Swiss Finance Market Authority FINMA do not therefore have access to EU regulatory bodies. This holds for the sectoral committees created in the early 2000s covering the areas of regulating securities, banks as well as insurance and occupational pensions. It is also true for the European Supervisory Authorities (ESAs) which were created in 2011, namely the European Banking Agency (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA). Finally, the Swiss do not have access to the bodies of the European Banking Union where participation is thus far limited to Eurozone countries. In sum, Switzerland does not have access to either formal (option 1) or informal (option 2) sectoral bodies.

Switzerland has not been granted passporting rights and so access to the Single Financial Market and the right of establishment and to provide cross-border services. Deprived of passporting rights, Swiss banks have set up operations through subsidiaries in locations in the EU, notably in London prior to Brexit, but also other financial centres such as Frankfurt.

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Moreover, most aspects of EU-Swiss relations on financial issues are governed, as is common regarding financial regulation, by the rule of equivalence (Duvillet-Margerit, et al., 2017). Access to the single market is granted to third countries where their rules are considered equivalent to EU rules. Third countries have to demonstrate that they supervise appropriately their domestic and EU-based businesses. There are currently around 40 areas for equivalence decisions under EU law relating to financial services regulation. Decisions on regulatory equivalence are taken by the European Commission, usually in the form of implementing acts, in close cooperating with third-country competent authorities and drawing on input from the ESAs. Overall, equivalence poses a challenge to third countries such as Switzerland where tighter regulations at EU level increases the pressure to amend their domestic legislation. The EU's 2014 Markets in Financial Instruments Directive – MiFID II – (Directive 2014/65/EU), for instance, introduced new regulatory requirements and has thus made it necessary for more Swiss banks to open subsidiaries in the EEA and to obtain authorisation from an EU – or indeed other EEA – member state in order to gain an EU passport. Essentially, the Swiss financial sector faces the choice of either complying with EU standards or being deprived of access to the EU market. Equivalence decisions can be withdrawn at any time, and their approval process is arguably more of a political rather than a technical process (Howarth and Quaglia, 2017, p. 162).

The recent history of EU-Swiss relations demonstrates just how fragile and uncertain the framework is. When in June 2019 the validity of an equivalence decision which considered Swiss stock markets equivalent to EU stock markets expired, the European Commission decided not to extend the decision and equivalence thus ended. Equivalence had been granted under MiFID II and the related Financial Instruments Regulation (MiFIR) in 2017, but was limited to one year with an extension made contingent on progress made on the DIFA. Without equivalence, European investment firms could no longer trade on Swiss stock markets. To prevent this from happening, Swiss policymakers prohibited the trade of Swiss shares on EU markets, which ultimately meant that the restriction under MiFIR no longer applied to Swiss equities, so that EU investment firms were released from the requirement to trade them on EU trading venues. Instead of buying and selling shares listed on the Swiss stock exchange on EU exchanges, EU investors now trade through providers on the Swiss or other non-EU stock exchanges (Baltensperger, 2019). This example shows that equivalence depends on trust and a spirit of cooperation.

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2.3. EU-Swiss sectoral governance of electricity markets

The Bilaterals also do not include a sectoral agreement covering electricity markets, although the two partners remain engaged in discussions first launched in 2007 (Hettich, et al., 2015, p. 1). Progress hinges on two things: first, that the Swiss introduce legislation equivalent to EU law which amongst other things would require further market opening (Müller, 2018); second, negotiations on the DIFA need to be concluded (Stalder, 2019). While Switzerland has aligned a substantial part of its domestic electricity law with EU legislation, it has not been willing to commit to full market opening and to accept jurisdiction of the European courts (Lowe, 2017, p. 4). Moreover, the DIFA process has stalled. Consequently, the EU no longer grants the Swiss access to newly introduced sectoral governance schemes such as for EU-wide market coupling and intra-day coupling. Supranational regulation introduced in August 2015 (Commission Regulation no. 2015/1222) established a common legal framework for electricity trading and introduced EU-wide market coupling by 2017. The EU declined a Swiss attempt to at least secure an interim agreement providing temporary access (Fellmann, et al., 2015). Indeed, the regulation explicitly states that Switzerland could access the scheme on the condition that the country implements key aspects of EU electricity market legislation, and that an intergovernmental agreement on electricity cooperation was concluded (Article 1.4 of the Regulation). The new EU scheme was hence introduced without Switzerland, which from a Swiss perspective has massive drawbacks for the domestic market (Höltschi, 2015, p. 54). According to the Swiss Transmission System Operator (TSO), exclusion from the EU scheme means repercussions for the secure operation of the network infrastructure, unanticipated electricity flows towards the Swiss grid and reduced solidarity between network operators. Moreover, the Swiss capacity to import electricity be negatively affected, necessitating further investment in domestic electricity production (Stalder, 2019).

Similar to its aspirations to be included in EU governance arrangements, the Swiss actors have also continuously sought to secure access to EU sectoral bodies, albeit with mixed success. When in 1999 a sectoral forum comprising public and private actors, the so-called Florence Energy Forum (FEF), was created to facilitate stakeholder exchange, Switzerland, though aspiring to full membership (Schweizerische Eidgenossenschaft, 2008, p. 34), was granted observer status. Shortly thereafter, when national regulators took the initiative to cooperate informally inside the Council of European Energy regulators (CEER) created in 2000, Switzerland was not invited to participate. More than a decade later, in 2012, the Swiss obtained

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observer status alongside Macedonia and Montenegro (Schweizerische Eidgenossenschaft, 2012). With the entry into force of the EU's second and third Energy Packages in 2003 and 2009, respectively, cooperation between national energy regulators was strengthened, and involved the creation of the European Regulators' Group for Electricity in Gas (ERGEG) in 2003, and the Agency for the Cooperation of Energy Regulators (ACER) in 2011. Participation in both ERGEG and now ACER is strictly limited to EU member countries. Hence, the Swiss regulator EICom, created in 2008, sits outside. The value of its observer status with CEER, by contrast, has declined given that informal cooperation between national regulators seeks to complement ACER and focuses notably on issues of consumer protection.

Energy is an example where private governance has provided a remedy of sorts to the lack of access to formal decision-making bodies. Compared to the Swiss regulator, the Swiss TSO is in a privileged position. In accordance with Switzerland's central position in the European grid map, the Swiss grid operator is a full member of the European Network of TSOs for electricity (ENTSO-E). Switzerland was a founding member of the association of European Transmission System Operators (ETSO) created in 1999, and remains influential in ENTSO-E. It fully participates in the association's schemes such as the one for inter-TSO compensation (ITC) for cross-border flows. Moreover, Switzerland is at the heart of the scheme as a country hosting a majority of flows (Interview TSO, 2008). The Swiss TSO has taken on important operational tasks, for example by taking care of data management (Interview 1, ETSO). The Swiss TSO has also been active in voluntary cooperation on congestion management: since 2010, Swissgrid has been a shareholder in the Capacity Allocation Service Company (CASC.EU). Similarly, Switzerland contributes to a voluntary mechanism to ensure security of supply, launched in 2008, as one of 13 central European TSOs from then countries. In legal terms it can be argued that Swiss membership in ENTSO-E is not compliant with the requirement that only members from countries that fully implement the EU acquis can be part of bodies that have a formal mandate in EU policy-making, which is the case with ENTSO-E (Interview COM, 2017). ENTSO-E does, however, restrict access to the working groups and decision-making to TSOs from EU member states when fulfilling its official mandate. There is thus a procedural differentiation inside ENTSO-E for cases where it fulfils its formal mandate, as opposed to cases where it engages in (informal) coordination that is not based on a mandate enshrined in EU law. This said, according to policy insiders, the TSO arrangements tend to accommodate the interests of third-country TSOs such as Switzerland through some type of "shadow governance" (Interview regulator, 2017). Hence, the Swiss TSO does exert influence in

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ENTSO-E decision-making even though it neither sits at the table nor holds a voting right. As a result, the Swiss TSO has become a sort of transmission belt for Swiss influence in Brussels, given that policymakers in Switzerland rely on market actors to access relevant insider information and to bring their preferences into EU discussions. At least in the past, therefore, the central position of the Swiss grid operator in the interconnected system has ensured Switzerland's energy interests have not been marginalised (Jegen, 2009, pp. 592-5). The recent attempts of Switzerland to secure full access to the EU's internal electricity market do, however, point to a situation where such technically driven private governance cannot make up for the lack of cooperation at political level. Moreover, the overall perception is that linkages such as the one between a sectoral agreement on electricity markets and the DIFA are driven by a political rationale that ultimately harms the legacy of well-functioning technical cooperation across borders (Stalder, 2019).

3. Lessons for the EU-UK post-Brexit relations

EU-Swiss relations offer precedents and a potential model for EU-UK post-Brexit relations. Moreover, the two processes of (attempted) UK and Swiss disintegration coincide and indeed have interacted notably when it comes to the EU's willingness – or not – to compromise.

3.1. Future relations in finance

With Brexit the UK moved from being a powerful rule-shaper in EU financial regulation to become a potential rule-taker. In the past, UK policymakers and sector experts have been highly influential in the development of the Single Financial Market, especially in the pre-crisis era of market creation and integration. This influence was effective for at least three reasons: the City in London being the largest financial sector in the EU and of global relevance; UK policymakers based in national and EU institutions providing sectoral expertise; UK-based banks exerting significant lobbying power. Following the UK's decision to withdraw from the EU, there were basically three options for the UK, adhere to WTO rules, become part of the EEA, or pursuing a bespoke bilateral relationship. The WTO option would not have allowed UK firms the right of establishment in the EU, nor would it have secured passporting rights; joining the EEA would have had the advantage of full access to the Single Market and to passporting, yet would have come at the cost of fully complying with EU financial regulation; the bilateral path, which is

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the one chosen by the UK, has yet to be fully defined and in some respects resembles the EU-Swiss relations.

The EU-UK Trade and Cooperation Agreement (TCA) does not cover financial services in any great detail (rf. Section 5), but defines the general rules applicable to future relations. Most importantly, UK-based business will not be granted passporting rights into the EEA, but instead will have access to the EU market conditional on equivalence decisions (Article SERVIN.5.42) or, in the absence of equivalence decisions being made, will need to rely upon authorisation under individual member state regimes. The latter requires the establishment of a local subsidiary on EU territory to provide banking services within the EU. Importantly, the establishment and operation of subsidiaries of non-EU credit institutions in EU member states is subject to EU banking law (Gortsos, 2019, p. 20). The TCA does not cover any decisions relating to equivalence for financial services and it is not expected that the European Commission will grant such decisions any time soon. This is motivated both by the EU's desire to move London-based clearing trading to within the EU, but also to have more certainty about the extent to which the UK seeks to diverge from the EU's regulatory framework (Swinburne, 2020). In view of such uncertainties, experts estimate that around 40 percent of UK-based financial services will be relocated, while around 20 percent will be subject to equivalence, assuming it is granted (FAZ, 2020). Given that the TCA leaves many questions open on future financial relations both parties have agreed to establish by March 2021 a memorandum of understanding or cooperation framework covering future regulatory dialogue and procedures regarding equivalence decisions. One thing is certain, the UK will not participate in the EU's sectoral bodies such as the ESAs.

Post-Brexit relations between the UK and the EU will thus provide for far less regulatory certainty on financial issues than in the past. The 2019 decision of the European Commission to deprive the Swiss stock exchange equivalence constitutes an insightful precedent of equivalence decisions being politically motivated, and has to be understood in the double context of EU-Swiss relations being deadlocked and Brexit (Mooney, 2019). As already noted, equivalence is regarded as a second-best solution with many drawbacks such as the risk of unilateral withdrawal, inconsistency and the lack of incentives for deep cooperation.

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3.2. Future energy relations

The UK was an influential player in the creation and evolution of a liberalised and integrated European electricity market. Drawing on domestic reform experience UK actors were a driving force in pushing many issues on the European energy policy agenda including market creation and the introduction of independent regulation and TSO unbundling. Similarly, UK-based TSOs such as National Grid were particularly proactive inside ETSO and ENTSO, even more so since their organisational structure and their independence served as a model for European reform (Interview regulator, 2017). That said, this influence of UK-based actors is relatively recent and due more to the EU-induced process of policy change than to a technical need for cross-border cooperation. For instance, the UK TSO was not initially part of the voluntary agreement on inter-TSO cooperation as the financial implications of cross-border flows were not important enough (Interview TSO, 2008).

The EU-UK TCA covers energy matters under title VIII. This provides that the UK and EU capacity markets will no longer be required to integrate overseas capacity providers (article ENER.6, clause 3), that existing allowance for selected interconnectors to sell capacity rights ahead of time will continue to apply (Article ENER.11), and that the status quo according to which individual interconnector transactions will not be charged will be maintained. The TCA also stipulates that the UK and the EU shall cooperate on issues of network development and security supply (articles ENER.16 and 17). The UK will, however, not be included in EU procedures on capacity allocation and congestion management, which is why the two parties have committed to coordination in these areas (Article ENER.13). Moreover, it is explicitly stated that future cooperation with the UK shall not "involve, or confer a status comparable to, membership in ENTSO-E" (Article ENER.19.1), or "participation in the Agency for the Cooperation of Energy Regulators" (Article ENER.20.2). Instead, a new Specialised Committee on Energy shall be created to address cross-border issues (article INST.2: Committees). In accordance with the Withdrawal Agreement's Protocol on Ireland/Northern Ireland (Article 9) the UK is required to continue to apply EU legislation governing wholesale electricity markets in respect of Northern Ireland.

As stated above the TCA contains a mutual commitment to network development. Currently the UK shares four electricity interconnectors with EU countries, connecting England-France, England-Netherlands, Northern Ireland –Ireland and Wales-Ireland. Grid expansion is

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underway where an additional seven interconnectors are approved by the British regulatory authority (House of Lords, 2018). These planned projects would connect the UK to Norway, Denmark, Belgium and intensify shared interconnection capacity with France and Ireland (see Figure 3). As of November 2020 Britain's interconnected capacity was at 4GW, expected to rise to 11,7GW in 2022 with the completion of the mentioned projects (Ofgem, 2020, see Figure 4). Moreover, the most spectacular plan for future grid expansion is to build a new direct line between Ireland and Northern France. This project, known as the Celtic Interconnector, would establish a direct link between Ireland and France via an 600-km-long undersea cable providing for 700 megawatt (Morgan, 2017). The interconnector should become operational in 2026 (EirGrid, 2020; RTE, 2020), and its realisation has become ever more important for Ireland which has suffered in terms of increased supply volatility caused by the UK's departure from the internal electricity market (Deign, 2021)

Figure 3 UK Cross Border Electricity Interconnectors (February 2021)

Source: Information retrieved from https://www.entsoe.eu/data/map/ and https://ec.europa.eu/energy/infrastructure/transparency_platform/map-viewer/main.html (last access 19.02.2021).
Notes: Existing interconnectors (black lines), interconnectors under construction (green lines) and planned interconnectors (dotted lines).

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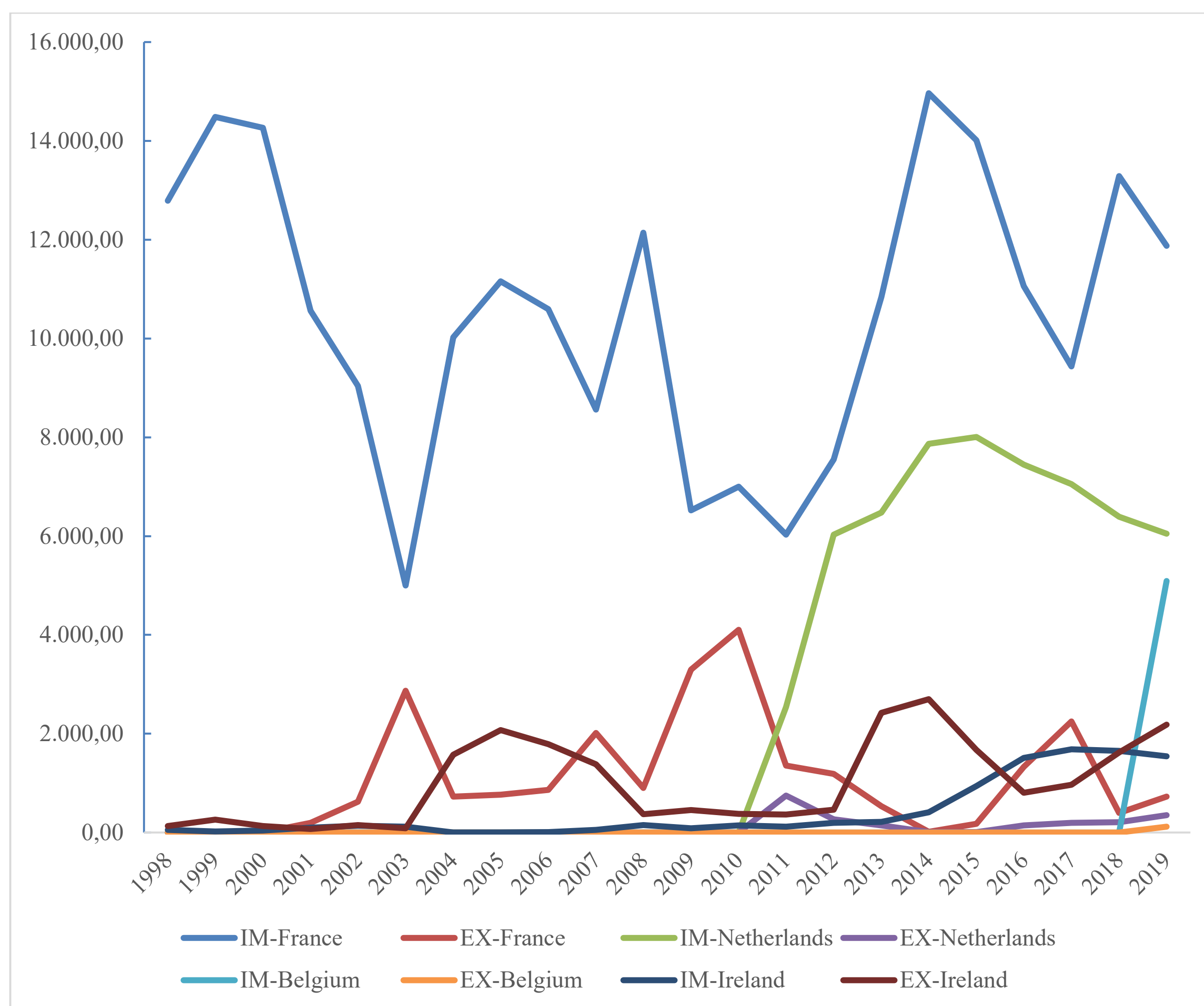
Figure 4 UK Imports and Exports of Electricity (1998-2019)



Source: Statistics from Department for Business, Energy & Industrial Strategy: Imports, exports and transfers of electricity, retrieved from: https://www.gov.uk/government/statistics/electricity-section-5-energy-trends (last access: 19.02.2021)
Notes: Wales and Northern Ireland values have been added to UK.

Such grid expansion might enhance the need for intensified cross-border cooperation at a technical level, notwithstanding the willingness on both sides politically speaking. That said, one also needs to bear in mind that it is the UK as an importing country – and with an increasing need for energy imports to accommodate intermittent generation caused by a growing reliance on renewables – that seeks access to the Continental market. On the other hand, European TSOs investing in the UK also have an interest in regulatory certainty.

3.3. Discussion: The Swiss and UK case compared

Taking stock of sectoral governance covering financial and electricity markets in EU-Swiss and EU-UK post-Brexit relations, notable differences between sectors can be observed, while the patterns of (future) bilateral cooperation resemble each other for the two countries (summarised

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in Table 2). The key difference comparing sectors is that while EU governance of electricity markets relies on formal and informal cooperation inside private sectoral bodies (options 3 and 4 in Table 1), financial market governance does not. This divergence can be attributed to three aspects, namely that: TSOs are often still in full or partial public ownership and thus do not entirely qualify as "private" bodies (Meletiou, et al., 2018); technical cooperation on infrastructure issues solicits substantial participation of infrastructure operators; and infrastructure operators are broadly considered as guarantors of the secure operation of the grid, whereas financial institutions – especially following the financial crisis of 2008 – are widely perceived as (at times excessive) risk takers. Sectoral governance has also followed distinct paths as to the role of regulatory networks and agencification. In financial regulation we see the latter taking the form of replacement of pre-existing informal structures by the newly established ESAs (Moloney, 2016). Energy regulation, by contrast, has seen the coevolution of informal cooperation inside the CEER and the emergence of EU sectoral bodies with a formal mandate with the establishment of ERGEG and its transformation into ACER. Finally, financial market governance in the EU is a special case of differentiated integration (Schimmelfennig, 2016) with a complex architecture of EU-level sectoral governance combined with the EBU which is currently limited to the Eurozone.

The comparison of Switzerland and the UK proves highly insightful where the patterns of sectoral governance are expected to look very much alike. Similar to Switzerland, UK supervisory and regulatory authorities will not have access to EU sectoral bodies involved in financial market governance. This was already the case in the past for EBU institutions, where the UK did not participate. In the future this will also be the case for the ESAs given that the UK did not opt for the EEA model which would have granted passporting and observer but non-voting status inside the EBA, EIOPA and ESMA. While the UK will still have access to international sectoral governance in the context of the Basel process, not being present in the ESAs will also weaken its international presence. With the overall move from standard-setting to operational matters the ESAs have become more important in international financial governance (Moloney, 2016). Another development which will further weaken the UK's position vis-à-vis EU sectoral governance is that the EBU bodies are becoming more important for regulatory dynamics inside the EU, a development which is expected to intensify with the departure of the UK as an important voice of non-Eurozone EU member states' interests (Howarth and Quaglia, 2017).

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Table 2. Sectoral governance of financial and electricity markets

Mode of cooperation	Formal	Informal
Actor participation		
PUBLIC	(Option 1) access to EU sectoral body holding a regulatory mandate	(Option 2) access to informal network of national sectoral bodies
Financial markets	2 layers of cooperation: national, Eurozone (EBU), EU (ESAs)	informal cooperation of EU national regulators replaced by formal sectoral bodies
Switzerland	no access to ESAs, EBU	
United Kingdom	no access to ESAs, EBU	
Electricity markets	formal regulatory network ERGEG (2003) replaced by agency ACER (2011)	informal regulatory network CEER coexisted with ERGEG, coexists with ACER
Switzerland	no access ERGEG, ACER	non-voting observer CEER (2012), FEF (1999)
United Kingdom	no access ACER	non-voting observer CEER?
PRIVATE	(Option 3) access to private EU sectoral body holding a (quasi) regulatory mandate	(Option 4) access to informal network of private sectoral bodies
Financial markets	no such bodies exists	no governance networks at EU-level
Electricity markets	ENTSO-E with formal mandate	TSOs cooperating informally within ENTSO-E
Switzerland	ENTSO-E membership denied	ENTSO-E member ("shadow governance")
United Kingdom	ENTSO-E membership denied	ENTSO-E member?

In energy governance, the hitherto strong position of UK policymakers and regulators in the EU sphere will come to an end. It will not have access to ACER, but may be offered non-voting

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observer status inside CEER, very much alike Switzerland. Whether it accepts the offer remains to be seen. In terms of de facto influence in energy governance the UK is in a disadvantageous position compared to other third countries, Switzerland included. This is because of its geographically peripheral location and its status as an importing country. As highlighted by the Swiss energy expert Jean-Christophe Füeg during hearings on the EU's external energy relations at the House of Lords, the UK does not offer anything crucial to the internal energy market (House of Lords, 2018, p. Q 45). Regardless of the institutional arrangements, UK political influence on energy policy post-Brexit will be diminished (Interview ministry, 2017), which makes cooperation between market participants more important (Virley, 2017). As a non-EU country, the UK will not participate in ENTSO-E deliberations where TSOs implement their mandate laid down in EU law, such as drafting network codes. It may, however, still be a member of ENTSO-E as an association including many non-EU countries as full members. Given the perception that ENTSO-E is too generously accommodating non-EU countries positions – that of Switzerland in particular – when realising its formal mandate (Interview COM, 2017), this could, however, change in the near future. Here Brexit could have repercussions for other third countries where formalised requirements for EU sectoral bodies, public and private, could become more stringent and less permissive to accommodate informal modes of cooperation that facilitate external participation.

Conclusions

With its focus on sectoral governance, this working paper provides an original addition to the already rich literature on EU bilateral relations (e.g. Gstöhl and Phinnemore 2019). Starting from the observation that JIFs do not cover all relevant areas for economic cooperation and thus leave regulatory gaps in sectoral cross-border cooperation, the working paper conceptualises modes of cooperation and actor constellations in third countries' access to EU sectoral bodies. The suggested framework incorporates the role of private governance in bilateral relations which, while widely analysed with respect to EU internal governance (Cowles, 2003; Knill, 2001; Lehmkuhl, 2005), has not attracted significant attention in existing research on EU external governance (but see Lavenex, 2015). Moreover, the contribution considers the role of rules such as equivalence in the functioning of JIFs for areas where no institutionalised forms of sectoral cooperation exist. It is argued that alongside such rules, informal cooperation and the involvement of private actors constitute governance devices to address persisting or newly

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emerging regulatory gaps. These gaps are of particular relevance in the current context of (differentiated) disintegration (Schimmelfennig and Winzen, 2020).

The findings from a study of EU-Swiss and UK-EU relations suggest that there are distinct governance patterns across sectors which concern the relevance of both, informal modes of cooperation and private actor involvement. While EU governance of electricity markets relies on formal and informal cooperation including private sectoral bodies, financial market governance does not. Informal cooperation of national energy regulation continues to exist alongside formalised cooperation inside the EU-level energy agency. In financial governance, by contrast, pre-existing informal networks have been replaced by formal bodies. The EU regulatory framework has mandated the network of electricity infrastructure operators with a role in the rule-making process, which is not the case in financial regulation.

In contrast to persisting cross-sectoral differences, it is expected that what the EU has to offer in terms of sectoral cross-border cooperation will very much look alike for both the UK and Switzerland. In financial regulation UK and Swiss based regulators will have to rely on mechanisms of international cooperation to make their voices heard, while the ongoing institutionalisation internal to the EU, both in the context of the EU-wide system of financial supervision and the Eurozone's European Banking Union, will be strengthened and thus increasingly exclude third country involvement. Their bilateral relations with the EU will mainly be governed by the rule of equivalence that involves cumbersome processes of tailor-made decisions and a significant degree of regulatory uncertainty. The EU's electricity governance arrangements have thus far excluded Switzerland from access to the EU energy agency, yet the Swiss were involved in informal cooperation of regulators and infrastructure operators. While similar access may be granted to the UK, its peripheral position in the internal electricity market may limit its de facto influence. Moreover, one could see that modes of informal cooperation become more constrained for third countries in the future as a direct consequence of Brexit – even where they play a central role in the technical functioning of the interconnected infrastructure such as is the case for Switzerland. The general takeaway is that Brexit will have repercussions for the EU's external relations with other third countries, putting ever more emphasis on formal and rule-based approaches, while leaving a need for sector-specific cross border cooperation.

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Acknowledgements

The working paper was researched and written when holding a COFUND-AIAS fellowship (European Union Horizon 2020 Research and Innovation Programme Marie Sklodowska-Curie grant agreement no. 754513 and Aarhus University Research Foundation, October 2019-October 2022) awarded by the Aarhus Institute of Advanced Studies (AIAS). The analysis draws on research and empirical material gathered in the course of the research project 'The State of the Union: The Politics of Integration in Banking and Energy' funded by the LOEWE Center on Sustainable Financial Architecture for Europe (Project SAFE funding agreement #21136).

I would like to express my gratitude for the extremely helpful comments received from the discussant and participants in a panel on bilateral relations during the UACES 49th European Studies Conference held in Lisbon in September 2019. Moreover, I thank Amber Davis for excellent proofreading services and Jacob Bank Olesen, Kamila Duraj as well as Henry Hempel for invaluable research assistance.

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