

"Security of supply: how vulnerable and dependent is Switzerland on global supply chains?"

Summary Report I 14th SSF Security Talk, September 4, 2023, Hotel Schweizerhof, Bern

Since the Corona pandemic and the Ukraine war, global supply chains have come under massive pressure as a result of increased geopolitical tensions. This has also made clear to Switzerland the consequences of dependence on individual producers and countries of origin. The availability of medicines is a particular cause for concern. In January 2023, more than 970 medicines - from painkillers to antibiotics to opioids - were not available. Supply bottlenecks are also becoming more frequent in other sectors due to a lack of the necessary goods and interruptions to important transport and traffic routes.

What do governments and business need to do to become less dependent on manufacturing countries like India and China? Do we need a return to multilateral trade policies and diversification of production sources? Will essential goods have to be produced in Europe and Switzerland again in the future?

These and other important questions were discussed at the 14th SSF Security Talk in Bern by renowned experts such as **Dr. Hans Häfliger** (Delegate of the Federal Government for National Economic Supply), **Prof. Dr. Simon Evenett** (Professor of International Trade and Economic Development, University of St. Gallen), **Martine Ruggli** (President, Swiss Pharmacists' Association pharmaSuisse), **Dr. Alexander Muhm** (Head of Freight Transport, Member of the Group Management, SBB AG) and **Rainer Deutschmann** (Head of Security & Transport, Migros-Genossenschaftsbund).

Hans-Jürg Käser, President of SWISS SECURITY FORUM, welcomed the approximately 90 participants to the 14th SSF Security Talk. For many years, people in Switzerland could no longer imagine that we would have to discuss security of supply, but this was now a reality.

Security of supply in a global context

Prof. Dr. Simon Evenett, Professor of International Trade and Economic Development at the University of St. Gallen, put the current debates on security of supply into the global context in his input presentation. Just three to four years ago, trade links between countries were generally seen as beneficial. However, three events in recent years have caused supply security and global supply chains to become the focus of policy makers and society, Prof. Evenett explained. First, the **shortage of protective medical equipment** at the start of the **Covid pandemic caused** great political uproar as a result of the abrupt increase in demand. Second, the **curtailment of energy and gas supplies from Russia to Western Europe** led to questions about dependence on cheap Russian energy. Third, since the Russian attack on Ukraine, **grain deliveries across the Black Sea have** at least partially stopped. This has particularly affected low-income countries that depend on the rather low-quality but cheap grain from Ukraine. **Food security** is therefore at **risk in** these countries, with a high potential for political unrest.

States can respond to supply shortages in different ways, as Prof. Evenett demonstrated using the example of trade policy measures related to protective medical goods. At the beginning of the Covid 19 pandemic, there was a massive **increase in export restrictions on** protective masks, respirators and other medical equipment. However, policymakers quickly realized that export bans did not improve their own supply situation because these products are manufactured in global supply chains. As a result, the number of restrictions quickly declined again, but leveled off at a high level during the

subsequent waves of the pandemic. At the same time, many countries began to **reduce levies on imports of medical supplies**. Thus, over the course of the pandemic, one could observe two different approaches to solving the problem: either keeping the goods you have to yourself, or integrating more into the global market. So sometimes the solution to supply shortages is not to shut yourself off, but to open up to the outside world, Prof. Evenett concluded. But the media would rather report on export restrictions and the resulting conflicts.



Another interesting fact that has hardly been covered in the media is China's behavior during the pandemic, as Prof. Evenett noted. China also initially stopped exporting masks, but after surviving the first wave of the pandemic, it began **shipping masks** on a large scale to the **rest of the world, including the United States**. Similarly, during the first wave in China, the U.S. increased its mask exports to China. These acts of solidarity, however, would rarely be heard of, Prof. Evenett regretted. But they show that there are **better solutions than export bans** and that the market has not reacted as badly as is often claimed.

Supply bottlenecks as a procurement problem rather than a globalization problem

Nevertheless, certain **narratives** have emerged in the West, Prof. Evenett noted. First, the narrative has been stoked that our **security of supply is at risk because we are too dependent on too small a number of countries**. Prof. Evenett emphasized, however, that dependence is much smaller than is often proclaimed. Nevertheless, the narrative of too much dependence has given rise to a second narrative, as Prof. Evenett explained: **"decoupling."** "Decoupling" aims to suggest that the West should disengage from dependencies with other countries, especially China. For Americans, who have long been fearful of China's rise, this narrative has come at the right time, Prof. Evenett said. However, he said, there are many European companies that resist "decoupling" because they are unwilling to give up the relationships and networks they have painstakingly built over the past 40 years.

As a result of this resistance, the narrative of **"de-risking"** has finally emerged, as Prof. Evenett explained. While this looks a lot more reasonable at first glance, the basic idea is also that we are too dependent on individual suppliers, especially China. Prof. Evenett criticized that a **diversification of**

supply chains, as demanded by the proponents of "de-risking", is **not a valid solution to the problem of dependency**. This is because the companies to which diversification is to be directed often themselves have suppliers in the countries on which one would like to become less dependent. In specialist circles, this is referred to as "**tiers of suppliers**". "De-risking" has therefore had little or no impact on dependence on other countries in many countries, Prof. Evenett summarized.

Sham Decoupling

How have firms responded to pressures to decouple from China?

1. Many firms have adopted "China plus one" strategies.
2. Some factories have moved to Mexico, Vietnam and a few other locations.
3. Many of those new factories and new foreign suppliers source parts and components from China.

So has dependence on China really been reduced?


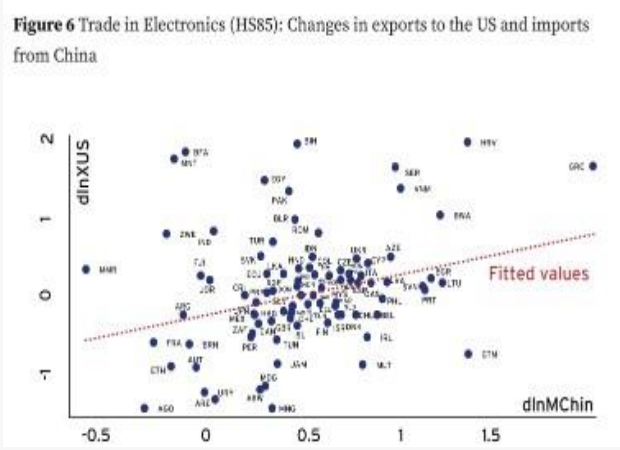


Figure 6 Trade in Electronics (HS85): Changes in exports to the US and imports from China



4 September 2023
5

The problem of "**sham decoupling**", i.e. decoupling that only takes place on paper but not in reality, can be illustrated by "**China plus one**" strategies. Many companies are now trying to re-diversify their supply chains by always having another supplier in addition to Chinese manufacturers. In practice, however, these "plus one" sites would in turn often source their products from China, Prof. Evenett explained. Thus, he said, it could be observed that the increase in exports to the U.S. from "plus one" supplier countries was accompanied by a sharp increase in imports from China to the same countries. **Instead of reducing dependence on China, he said, the U.S. is now simply indirectly dependent on China.** Prof. Evenett therefore concluded that "decoupling" could not happen simply by moving some factories to other locations.

With which measures could the security of supply actually be increased? According to Prof. Evenett, a look at history could help to answer this question. In his book "Seven Crashes," British historian Harold James shows that in the past, **during economic crises, opening up to the outside world and diversifying supply chains was much more successful than excessive protectionism.** The lesson from this, Prof. Evenett said, is to think carefully about where you source your goods from and minimize the risks so that it doesn't become too costly: "**We need to look at these problems not as a problem of globalization per se, but as procurement problems** and look for solutions on that basis."

In any case, **sensible risk management** should be important. While measures such as **stockpiling** can **therefore** make sense, **export bans** are fundamentally a bad idea, Prof. Evenett emphasized. This has also been shown in the aftermath of the Covid pandemic: Countries that did **not** impose **export bans** would benefit from an **enormous confidence advantage** now and in the decades to come. Switzerland could also take advantage of this opportunity if it recognizes and solves problems with supply security before they occur and thus does not have to resort to such measures in the first place.

"The BWL is expected to be able to save Switzerland..."

Hans Häfliger then explained how national economic supply is ensured in Switzerland in his first public appearance as the **federal delegate for national economic supply**. At the beginning of his presentation, Häfliger explained to the audience the **tasks and structures of the National Economic Supply (NES)**, which are based on Article 102 of the Federal Constitution. This constitutional article and the legal basis of the WL date back to the Franco-Prussian War of 1871, when the young, very liberal Swiss federal state was confronted with a shortage situation for the first time.

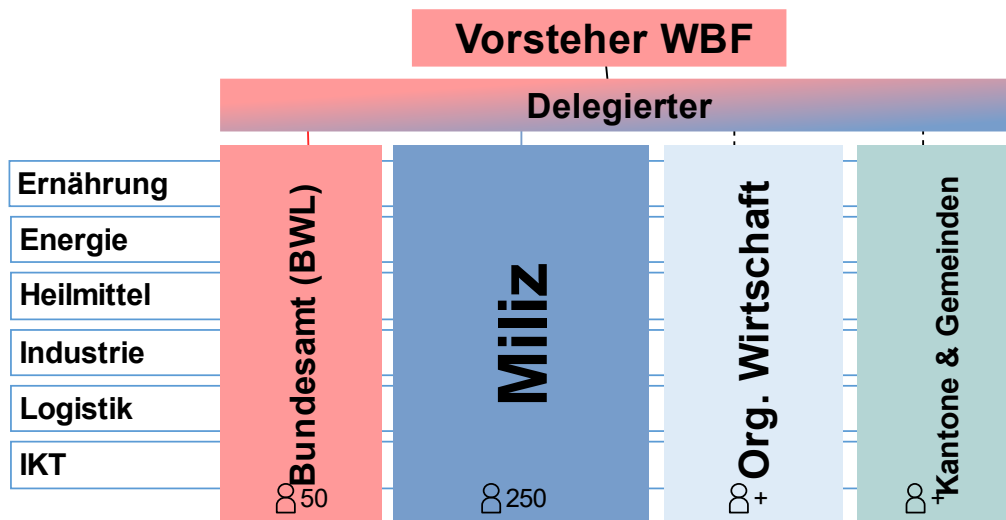
According to Art. 3 of the National Supply Act (LVG), WL in Switzerland is based on **three principles**: First, **WL is the responsibility of the economy (primacy of the economy)**; second, if the economy cannot ensure WL in a **severe shortage situation**, the **federal government**, and, if necessary, the **cantons**, take the necessary measures; third, the **economy and the community are obliged to cooperate**. Before issuing implementing regulations, it must therefore be examined with the business community whether the WL cannot be ensured by voluntary measures on the part of the business community. These principles form the foundation of the mission of the Federal Office for National Economic Supply (FONES). According to Hans Häfliger, he has noticed that he has to repeat this mandate to the outside world again and again like a mantra, because the demands on the FONES are immense: **"Nothing less is expected of the FONES than that it can save Switzerland"**. In reality, however, the BWL can only work in cooperation with the economy, the cantons and the municipalities.



The specific task of the BWL is to provide **short- to medium-term subsidiary support to the economy in the event of market failure, so that it can once again fulfill its supply mandate**. It is not a matter of rescuing individual companies, emphasized Hans Häfliger. The BWL only intervenes when the market as an institution no longer functions. For the BWL, this means that it must **prepare measures** together with the militia system in order to be prepared for this eventuality. The measures taken by the WL must be **competitively neutral**. In addition, during Corona, we saw how important a **clear definition of competencies and coordination within the federal government** are during crises, says Hans Häfliger.

One of the most important tasks of the BWL is the **transfer of know-how**, whereby the knowledge must come from outside, because the federal government itself does not produce any goods. Another important task of the BWL is **early warning, which** includes periodic situation assessment and its preparation. Hans Häfliger emphasized that nothing is more effective in this context than the integration of players active on the world markets into the BWL's early warning system, who can provide reliable, first-hand information on possible bottlenecks at an early stage. The **periodic assessment of the situation** is therefore basically again a **task of the militia system** and not of the federal government, Hans Häfliger remarked. Finally, the third area of activity is the concrete measures of the BWL.

Organisation der WL



4. September 2023

Wirtschaftliche Landesversorgung

19

Finally, Hans Häfliger briefly explained the **organization of the WL**. In principle, the following goods fall under the **responsibility of the WL: food, energy, remedies, industry, logistics, and information and communication technologies ICT**. In addition to the head of the EAER and the delegate, the WL consists of the FONES with about 50 employees; of the militia, which comprises about 250 militiamen who have a contract with the FONES and make their knowledge and skills available; of the organizations and associations of the economy with their networks; and finally of the cantons and municipalities. The **WL** is therefore ultimately a **large network**, Hans Häfliger remarked, and **networking** is therefore one of the **delegate's main tasks**.

"... Switzerland is dependent..."

After this overview, Hans Häfliger went into some of the **facts and challenges** with which the WL is confronted. The delegate took up the title of the event, which asked whether Switzerland is dependent. He would not formulate this as a question, Hans Häfliger remarked, but would say quite clearly: "**Switzerland is dependent, and on various levels**". However, he said, this is not negative per se, but simply a fact. For example, as a small economy, Switzerland is dependent on imports from abroad. Switzerland is also dependent on the infrastructure available today (ICT, electricity, logistics) as well as on market structures. The world market is not waiting for Switzerland, emphasized Hans Häfliger, Switzerland is a **small but well navigable boat**.

In addition to these dependencies, WL is constantly exposed to **new risks**, explained Hans Häfliger. In addition to **power-political tensions and war**, these include today above all **climatic and ecological risks**. In this context, the delegate recalled the importance of the Rhine as a trade route for Switzerland and the impact of the Rhine level on the transport of goods. Another challenge is **infrastructure failures**, as recently with the derailment in the Gotthard base tunnel. Finally, **epidemics and pandemics** are also among the challenges facing WL, as are **strikes and boycotts**.

Strategic reserves of the federal government - the importance of stockpiling

A significant measure taken by the WL to respond to this challenge is **stockpiling**, preferring to speak of the "**strategic reserves of the Confederation**," as Hans Häfliger noted. Stockpiling has its origins in the food sector. Later, the energy sector was added, followed by medicines and finally certain industrial materials. In addition to the goods covered by stockpiling, one could also discuss whether the respective quantities of stocks were sufficient. In the area of medicines, he said, there were currently about 700 medicines under observation, and in the meantime there were even more than 900 medicines missing. If one had to keep such quantities of a good or a category of goods in stock, the WL would go over into an insurance mentality, Hans Häfliger remarked. However, he said, it is important to remember that stockpiling alone does not improve supply, because goods must be rotated through the economy first and foremost. "**The economy supplies Switzerland, not the warehouse**," Hans Häfliger emphasized.



The delegate then went on to discuss various events in the recent past during which the WL had to take **intervention measures**. These included the **low water in the Rhine** or the **Covid pandemic**, during which the WL was confronted on the one hand with a shortage of masks, which were not kept in stock, and on the other hand with the labor shortage as a result of the border closures. In 2022 and 2023, there were also repeated **supply problems from the direction of France**, especially in connection with the pipeline from Marseille to Geneva Airport, according to Hans Häfliger. The **strikes in France in 2022** also led to a lack of supplies. Since 2017, he said, the **bottlenecks in the medicines sector have also been** conspicuous, making interventions by the WL necessary time and again. Finally, the war in Ukraine has **bottlenecks in the energy sector** in particular, the delegate explained. However, the

security of supply in the energy sector is also influenced by internal factors, such as the planned phase-out of fossil fuels, he added.

Risk factor service society

In order to be able to intervene appropriately in such events and crises, it is important to know the **risk factors**, Dr. Hans Häfliger emphasized. A first risk factor is the **development towards a service society**. In the case of services, the WL approach runs into an explanatory snag, because services can no longer simply be stocked, said Hans Häfliger. The **market concentration of individual manufacturers** is another risk factor. This comes into play, for example, in the therapeutic products markets. Diversification would be desirable in this context, the delegate explained, but if "sham decoupling" takes place, this does not help either. Another risk factor is **problems in individual manufacturing regions, i.e., local events with a global impact**. For example, weather events that destroy crops in one region of the world can have a direct impact on supply security in Switzerland. **Complex supply chains and logistics infrastructures** are also risk factors.

Regulated markets or market approval conditions are also risk factors. In this context, Hans Häfliger raised the question of how many product specifications are necessary to safeguard health, and how many simply serve to compartmentalize the market. One might well ask whether it makes sense to have our own Swiss approval bodies from the point of view of security of supply. Finally, the new **requirements for network infrastructures (energy, communication for goods/services)** also represent a major challenge. This raises the question of how Switzerland should deal with shortages in the energy sector.

In his conclusion, Hans Häfliger emphasized that the international division of labor, also in the service sector, will continue to become more complex rather than simpler in the future. He therefore called for us in Switzerland to learn to **look at the value chains as a whole** and not to start with measures for individual goods. Instead, we must learn to **think in terms of the system**. Finally, we should be aware that we will always be one step too late if we only react when a crisis is looming or has already occurred. Hans Häfliger therefore summarized: **"We have to think supply security today so that we are prepared tomorrow"**.

Panel discussion | Security of supply and dependency of global supply chains - rethinking

The two presentations were followed by a high-level **panel discussion** moderated by **Fredy Müller**, Managing Director of SWISS SECURITY FORUM. In addition to **Dr. Hans Häfliger**, **Martine Ruggli** (President, Swiss Pharmacists Association pharmaSuisse), **Dr. Alexander Muhm** (Head of Freight Transport, Member of the Group Management, SBB AG) and **Rainer Deutschmann** (Head of Safety & Transport Directorate, Migros-Genossenschaftsbund) took part in the panel discussion.

In response to the moderator's introductory question about what had been going through his mind during the input presentations, **Rainer Deutschmann** underscored the importance of the topic, which is also of great concern to Migros as one of Switzerland's largest suppliers. The Migros cooperative federation, for example, has **15 different supply chains**, from the "orange M", Denner or Digitec to one of the largest banks in Switzerland. At the same time, Rainer Deutschmann emphasized that **Migros** has **always been** able to **ensure supply despite the** almost **permanent crisis mode** over the **past three and a half years**. In this context, Rainer Deutschmann thanked the authorities for the always good and agile cooperation. This should form the basis for future discussions.

Martine Ruggli emphasized that the healthcare sector has had to deal very strongly with the problem of supply security in recent years. She had experienced directly and very drastically in her pharmacy what it means when medical supplies are missing. There are solutions in such cases, but they always require an amendment to the law first. However, she has been seeing **serious problems for patients for some time now**, particularly in the case of **supply bottlenecks in the area of medicines**.

"Derailment in the Gotthard tunnel - an event of the century".

Alexander Muhm, the new Head of Freight Transport at SBB AG, made direct reference to the **derailment in the Gotthard Base Tunnel in** his opening remarks. This, he said, was an **event of the century** and represented a major challenge for supply. However, it must be emphasized that **SBB's crisis management had worked excellently**. They were able to ensure that despite the dimensions of the event, only five trains would have been missing for the night. Of course, they were also very lucky, Alexander Muhm admitted, because the accident happened in a vacation week, transit traffic was smaller anyway and there was not much production due to Ferragosto in Italy. But also the domestic traffic had been organized very quickly, also thanks to the good cooperation with the customers of the SBB.



After these introductory statements, the moderator turned the floor over to Hans Häfliger and asked how BWL, with its staff of only about 50, was dealing with the challenges in the VUCA world. **Hans Häfliger** doubted that more people would solve the problem and instead emphasized the subsidiary role of the BWL: **"The art of our work is above all to wait and give the economy as much time as it can still handle the problems itself, but not to wait too long with intervention and risk destroying more than would have been necessary."** However, not all crises can be recognized equally well and at an early stage. According to the delegate, there is really only one **solution: the Swiss militia system. This makes it possible to sit down at the same table and discuss the right issues at the right time.**

"Society's Full-Cover Mentality ..."

Fredy Müller remarked that he observes that the population expects a **"fully comprehensive insurance"**, whereby the state and the economy must be able to deliver everything at any time at a reasonable price. Hans Häfliger agreed with this observation. Actually, one would have to **ask the people**

present what such insurance by the state would be worth to them. At the same time, the delegate demanded: "It would be important for **us** to remind ourselves more and more **how Switzerland originally became rich: because of trade, because of international connections, because of know-how.** Instead of suddenly giving up on this now, one should perhaps consider early on which **means** are the right ones **in times of scarcity.** Then one could even develop a comparative advantage. Hans Häfliger explained that the BWL currently has relatively many inquiries from countries, such as Japan, that want to know more about the compulsory stockpile solution in Switzerland. There are therefore countries that are thinking along similar lines as Switzerland and are taking their cue from us. Hans Häfliger therefore suggested that one **could also join forces between countries in order to make purchases.**

When asked how **Migros deals with its dependence on international supply chains,** Rainer Deutschmann first clarified that the majority of agricultural products fortunately come from Switzerland. But of course there were strong dependencies on global supply chains in many areas. Therefore, he called for **Switzerland to become more strategic: "We should analyze supply chains in depth and determine which supply chains are critical and which are not."** With excellent chairs at the HSG and ETH, as well as some of the world's leading supply chain companies, Switzerland has top know-how that should be used, he said.



"... Discussing and tackling problems together - the great advantage of Switzerland ..."

The moderator then touched on the **importance of critical supply chains** and emphasized that the Federal Office for Civil Protection (FOCP) always mentions them in its reports, to which Rainer Deutschmann remarked that the papers and reports of the federal administration were only one side of the coin. **Concrete solutions,** on the other hand, would be achieved if - as in the Federal Council's Sounding Board on the energy crisis - **things were kneaded together.** For the **retail trade,** Migros was thus able to work out an **industry solution for a savings plan** together with Coop and the Swiss Retail Federation. The four regulations before a cyclical power cut takes effect were streamlined so that Migros could maintain its product range and standard processes for a maximum period, he said. "We need to become more coherent and we need to tackle problems together. That is one of **Switzerland's great strengths: we know each other and we talk to each other,**" Rainer Deutschmann summed up.

Hans Häfliger then remarked that it is first important to analyze the problems precisely before solutions are worked out. Otherwise, one falls into the typical **Swiss peculiarity of looking for solutions before the problem is even known**. Fundamentally, however, he also believed that **close exchange with and between the players in the economy was the right approach**, said ~~Dr. Hans Häfliger~~. In addition, he emphasized that the system of national economic supply does not undermine democratic processes, even if criticism arises at times that the business lobby has too much influence in the process. "It is an approach that allows us **to prepare for extraordinary situations and to discuss with those affected** where the shoe pinches and what the biggest bottlenecks are," he said, highlighting the advantages of the system. The ordinances that can be drafted in this way would then go to the Federal Council, as democratic processes require, and would then be subject to consultation. "**We have a lot of good brains in Switzerland, but if they don't know the problem, they wouldn't be able to think**," he continued, underlining the **usefulness of the close involvement of the economic players**.

In response to the moderator's question as to whether these processes should not be accelerated, Hans Häfliger said that a **reform of the country's economic supply was** indeed taking place at the moment, resulting among other things from considerations following the Covid crisis, but also from the Ukraine war. "What is clear, however, is that the primacy of the economy must necessarily continue to exist. That's what I'm fighting for," he said firmly. **What still needs to work better, however, is the deployment of the militia. Today, the militia acts as a mixture of consulting and implementation**. However, this poses various difficulties, as the example of Mr. Deutschmann shows. He was responsible for security at Migros and could not simply be called in for consultations during a crisis. Such difficulties would also be discussed as part of the reform. "But what will remain most important for us is the **transfer of know-how: real-time information from people who know what's going on. Because then we can decide**," he stressed once again.

"Problem of essential drugs suddenly missing".

The moderator then turned to the supply of medicines and asked **Martine Ruggli** whether she was confident that the WL also had remedies on its agenda and was looking for solutions. The problem with medications is that there are different lists, Martine Ruggli took up the ball. "We have a list of essential medicines for which the federal government and the FCA are responsible. But unfortunately, in the meantime, many more medicines are concerned. The **majority of the medicines that are now missing** are not on this list **and are therefore under the sovereignty of the cantons**," she said, describing the problem. **Each canton, however, is considering something different**. This is not responsible, neither for the service providers nor for the patients, she said. The Swiss Pharmacists Association *pharma-Suisse*, she said, is calling for the **list to be extended to include other important medicines that are not vital but are urgently needed in everyday life**.

"...Think through and practice crisis scenarios together..."

After this short digression, the moderator addressed **Rainer Deutschmann** and asked how important it is that those responsible, who have designed crisis scenarios, are also involved in the actual **crisis management**. Rainer Deutschmann agreed and emphasized that this was a key aspect where there was clearly more potential. He said that **Migros** practices the philosophy that **those who have to lead the crisis also prepare** it. They are convinced, he said, that they can only be fit for crisis management if they **actively think through** such scenarios. "That would be a big wish of ours. **We are looking for those at the federal government who will work with us to make the scenarios so handy** that we understand the potential problem," he turned to Dr. Hans Häfliger, "If we know the scenarios, then we

can prepare and practice. **We have to overcome the discrepancy between strategic thinking and actual implementation in a crisis together.**"

In this context, **Hans Häfliger** drew a comparison with the Covid pandemic, which had come as a complete surprise. Now, on the other hand, it is possible to prepare. Whether this will be done is another question. He emphasized: "**What we do in national economic supply is to think in scenarios.** We are constantly asking ourselves in which areas a supply shortage would hurt the most. **Unfortunately, we can't zero out every risk.**"

Compulsory stockpiling - a showcase for other countries

At the end of this first block of the panel discussion, the moderator asked Hans Häfliger to explain the **system of compulsory stocks** to the audience. Happy to illustrate this with the example of food, Hans Häfliger complied with the request. The system of compulsory stocks was introduced by the Federal Council **after the first general strike**, which was, among other things, a consequence of increased food prices, in order to **maintain social security in the country**. In order to cushion the financial risk of such compulsory stockpiling for the importers, the so-called **guarantee fund contributions** are used to fund a fund, the so-called **special assets**. **These** assets are used to do two things: the first and most important is to **cushion price instabilities on the markets**. The second is to deal with **storage costs**. This is because the companies would have to provide infrastructures and manage these warehouses. **A peculiarity of the Swiss system in this respect is that the companies have the reserves in rotation.**



Hans Häfliger illustrated the **function of the compulsory bearings** using the example of a **sluice** such as the Felsenau weir in Bern: ""The water that is dammed at the top is the silos with the compulsory bearings. If there is too little rain, but I need a constant flow rate at the bottom, then I open the silos. That then flows into the normal system of the economy." The floodgates can be opened when the **Federal Council releases the compulsory stockpile**. Fortunately, **unlike petroleum or medicines**, this has never been necessary for food in the hundred years since compulsory stocks have existed, the BWL delegate explained.

Hotspot drug supply - compulsory stockpile "only" for 130 essential drugs

The moderator then led the discussion to the second block of topics, the **supply of medicines**. Addressing the **release of compulsory stocks**, Martine Ruggli explained that at the beginning of the year Switzerland had experienced a major shortage of very important medicines such as antibiotics or painkillers. There had been a shortage of medicines in all sectors, but there it had become really very tight and the supply could no longer be guaranteed. Therefore, he said, a task force was formed and together they looked at how to manage the situation. The difficulty is that there are **compulsory stocks**, but **only for about 130 essential medicines. However, Switzerland currently lacks more than 900 medications. "That's why we need to expand compulsory stockpiling and find solutions for future shortages as well,"** the president of the Swiss Pharmacists Association urged. The problem also lies with **early reporting, she said**. In theory, early notification should be given when manufacturers can no longer produce. But in the case of medicines, she said, this is not so easy because the **active ingredients often come from a single company. "If something happens to that company, the problem is immediate,"** she **said**, clarifying the challenge.



The moderator mentioned the plans of French President Emmanuel Macron, who wants to produce certain medical raw materials in his own country again. Martine Ruggli emphasized: **"If we want to be sure that we always have medicines, it will cost us something"**. Nevertheless, she believes that for certain medicines, it should be analyzed where the active ingredients come from and that possibilities should be created to produce them elsewhere, including in Switzerland. **"Of course, not everything can be produced in Switzerland. It is clear that we will remain dependent on foreign countries, but we should at least ensure that a certain part could also be produced in Switzerland,"** Martine Ruggli demanded. It is necessary to analyze together where the medicines come from and from where we can obtain them and especially the raw materials. In the generic sector, for example, this was done as part of a **study in America. It was found that one third of all drugs in America are produced by only one raw material manufacturer and another third by two manufacturers.** The problem therefore exists worldwide and not only in Europe, Martine Ruggli noted. But if we want production here in times of

crisis, she said, it is important that the know-how is already available, because a company cannot switch production from one day to the next.

The moderator therefore wanted to know from the BWL delegate whether a regional solution would be conceivable for the supply of medicines, with some countries joining forces to produce certain basic active ingredients in Europe again. This could be a solution, replied Hans Häfliger. One task of the private sector, however, is to make a profit. If that does not succeed, the only option is to withdraw from the market. The crux of the matter is that on the one hand we have to struggle with rising health insurance premiums, but on the other hand there are calls for more production in Switzerland. That is a dichotomy that cannot work, he said. **"I think first we have to do our homework and consider: What do we need in Switzerland, what is regulated, what is available in Europe?"** Hans Häfliger described the need for action, adding, **"Not every drug that is lacking in Switzerland would be available in Europe, but it must not be imported into Switzerland."**

"Essential medicines - not only a supply and health policy issue, but also ethical ..."

Therefore, the **problem has to be looked at on a structural level**, Häfliger demanded. The **health care system also needs to be scrutinized**. The law, for example, speaks of **"essential medicines,"** but in politics almost anything can be declared essential. The question, therefore, is **relevance to society, he said**, and this is where it gets very tricky. "A drug can be life-prolonging for a person. But is it then already relevant to society?" he asked the audience. Many would probably say no at first, but the situation is different when it concerns one's own mother or child, he speculated. Here, it becomes a matter of **ethical issues**.

Hans Häfliger noted that it is similarly difficult to change the pharmacological option of medication. There, too, the question arises: **"Who do we expect more from? The two-person team of doctor and patient or the general public, by opening up a compulsory stockpile?"** However, this discussion must be held, he demanded. Martine Ruggli basically shared the opinion of the BWL delegate, but pointed out: **"There are, however, diseases for which no substitute medication is available"**. Another example is antibiotics. If one antibiotic is replaced with another, there is a risk that resistance will increase due to lack of specificity, he said. For other ailments, such as high blood pressure, there are alternative medications. A changeover would be laborious, but feasible.

"So when we talk about security of supply of medicines, we mean a limited number of essential medicines, not security of supply as a whole?" the moderator turned again to Hans Häfliger. "This has to be discussed in the specialized societies," he replied. At this point, however, he would be happy to give a bit of an **all-clear regarding the current supply of medications in Switzerland. In the case of opiates, the stocks are full again, and in the case of antibiotics, things no longer look quite so bad.** Further, he said, one must also consider how much one wants to shift the "invisible hand" of the market into administration. **"In a market, high prices signal scarcity and low prices signal abundance. If you turn off those signals, it becomes difficult. We need to bring a little more market back into our discussions, but always coupled with ethics,"** Hans Häfliger pointed out.

"...It's not the expensive drugs that are lacking, but the cost-effective drugs..."

A distinction between inexpensive and expensive medicines is quite important, agreed Martine Ruggli. **"Of the 900 medicines that are missing, 750 have a low price. So we are missing low-priced products, because the products that bring a lot of added value are produced in Switzerland, and we don't see a shortage there,"** she continued. It is clear, she said, that the economy is playing out and that in order

to get a return on investment, the market has to move production out of Europe. Moreover, inflation and rising energy and logistics costs would make profitability even more difficult.

Asked again about domestic drug production, Hans Häfliger warned against pursuing **industrial policy in Switzerland**. **"One of our strengths is that we don't do that and our companies always adapt. They're just flexible."** He said he had nothing against the French opening a factory and we might even support them in doing so. But the market will continue to play, he said. Whether the factory is then up and running is also a question of profitability: **"If it has to be subsidized all the time, then we are fighting the market. Mandatory warehouses, on the other hand, were actually an invention of Switzerland before just-in-time versus just-in-time, he said. "We have to find clever answers like that. Solutions that can be financed and do not undermine or change the market, but allow companies to continue their business activities competitively, but at the same time take over certain bonds of the national insurance against compensation. Then our system will work,"** he said with conviction.



The point about **compensation** is very important, Martine Ruggli agreed. **Drug prices are very tightly regulated and the low prices are even lowered every three years because the prices are defined in comparison with other countries. However, in the event of problems such as inflation or increased logistics costs, there is no system in place to raise prices again visibly, except for essential medicines.** This flexibility is simply missing. Hans Häfliger added that the Federal Office of Public Health (FOPH) was not fundamentally their opponent. It is a legal requirement, he said, that the FOPH must keep checking prices. Under his predecessor, Werner Meier, there had also been discussions on this point. **The law only says that prices have to be checked, not that they have to be adjusted.** Through quite a few discussions, they have now been able to prevent a further reduction for the time being, he said. **"However, we will have to continue such talks and I need support there. Because the pressure must come from everywhere so that we can change something,"** he appealed to those present.

The moderator apparently raised the question of how to explain to the population that Switzerland, as a highly innovative pharmaceutical country, has to fight for the supply of certain drugs itself. This is difficult because the problem is not so easy for the population to understand, said Martine Ruggli. It is good and important, she said, that Switzerland also produces high-value products such as cancer

treatments. **"But when it comes to inexpensive medicines, which don't put much pressure on premiums anyway, we really have to take action and try to prevent the pressure from being increased further,"** she said.

Missing drugs - how soon will there be a solution

At the end of the thematic block on the supply of medicines, the moderator referred to the **working group on the supply of medicines, the results of which are expected in 2024**, and asked the group whether, in view of the urgency of the problem, its work could not be accelerated. Six or seven months for a report would also be too long, Martine Ruggli said: **"Solutions for the population are needed now. I see it every day during my work in the pharmacies. People are very unsettled."** There are eight sub-projects currently running in parallel, explained Hans Häfliger, the complexity of the project. Old mechanisms are also being affected. **For years, it was emphasized that health care in Switzerland was too expensive and that we had to save money. The results were well known, he said.** "Now we have to shift the pendulum again," he stressed.

Furthermore, he thinks, similar to Prof. Evenett, that **globalization**, which has been pronounced dead by many, will **continue uninterrupted**. He even hopes so, because, as already mentioned, it is the basis for Swiss prosperity. The question is rather how **far we want to let the pendulum of globalization swing**. Relying on a single supplier company worldwide is probably not the last word, he said, but **diversifying to 30 companies won't work either**. "Switzerland must remain stable and sensible here," Dr. Hans Häfliger urged.

Freight transport risk: "The best locomotives are no use if the infrastructure is outdated..."

When we think about the security of supply of the future, we also have to talk about **freight transport**, the moderator introduced the third block of topics in the panel discussion and wanted to know from Dr. Alexander Muhm how he experienced today's crises as the new head of SBB Cargo. The **main problem in freight supply currently lies in Germany with its inadequate infrastructure**. Although billions are to be invested there over the next few years, this is of little help at present. **The flow of goods into and through Switzerland goes from north to south and back again**. Switzerland, which sits in the middle, has **fulfilled its part of the task** with the Gotthard Base Tunnel, for example - **in contrast to Germany**. "Our subsidiary SBB Cargo International, which is responsible for transit traffic, is always happy when the trains arrive at all," emphasized Alexander Muhm.

However, freight transport is struggling worldwide, Alexander Muhm explained. Often, people don't really want it, and they are certainly not willing to make any investments. **"People simply don't want to pay anything for transport. You want to optimize the transport routes as much as possible, but save costs in the process, and everything should still work,"** Alexander Muhm pointed out. The basis for freight transport to function, however, is **functioning infrastructure**, which leads back to Germany, **he said: "You can have the best rail companies with the best locomotives. If a country has failed you with infrastructure on the route from north to south, you're screwed."** The amounts of investment made illustrate the problem, Alexander Muhm continued. Switzerland invests three times as much as Germany in infrastructure per inhabitant. **"If you talk about freight transport, you mainly talk about infrastructure and then about train path availability,"** Alexander Muhm summarized.

Another challenge was the **liberalization of freight transport** currently under discussion. In this context, people wanted to get away from the dictates of the SBB, especially in **single-wagonload traffic**. Five years later, however, nothing has happened in the market: SBB still operates 100% of this single-

wagonload traffic, although it has been running at a loss for years and can only be continued by accumulating mountains of debt at SBB.



After this clear overview in the area of freight transport, the moderator wanted to know from Rainer Deutschmann whether it would not be better to transfer all freight transport to the road or to the air. On an **intercontinental level**, there is of course still **sea freight**, he began his presentation. There are also challenges there, for example in the **utilization of the ports of Genoa and La Spezia**. These are excellent ports, he said, but the share of intercontinental ship freight traffic handled by the southern ports has fallen from 50% to 30% in recent years, while the share for the northern ports has risen from 50% to 70%. At the same time, there have also been changes in **intercontinental train traffic**. Certain subsidies in France and Belgium have disappeared, he said, as have all the right-bank train lines, and in Germany there are still the route issues with infrastructure. "Rainer Deutschmann summarized his thoughts **by saying**, "This is a **plea to pay more attention again to the fact that we act via northern and southern ports and do not just think about the north**."

Multimodality as a great opportunity for Switzerland

Looking at the **inland discussion**, Rainer Deutschmann said, it is once again a matter of being **more visionary and strategic** and also **linking** things here: **European, energy and transport policy dossiers and sustainability issues**. Another topic, he said, is **Cargo-sous-Terrain**. This, he said, is a project that Parliament and the cities really want because it offers a way to **couple long-distance transport with city logistics**. "We should favor such ideas, and in combination with rail and road. This **multimodality with five modals (air, rail, water, road, underground)** represents a great opportunity for Switzerland to be a global pioneer," Rainer Deutschmann stressed.

In response to the question of what proportion of total freight traffic is accounted for by rail transport, Alexander Muhm referred to the **ARE studies on the traffic forecast for 2050**, which calculate a total of 30 billion net ton kilometers of transported goods, with this figure rising. There are two drivers for this, Alexander Muhm explained: **population growth and economic growth**. If you break down these 30 billion ton kilometers, you get **15 in domestic transport, 5 in import/export to and from**

Switzerland, and 10 in transit. If you break down the 30 billion net ton kilometers again by mode of transport, you get **12 billion by rail and 18 billion by road.** Of the 12 billion by rail, about 4 billion are for domestic traffic, one billion for import/export and the large remainder of **7 billion for transit.** This is where **the railroads can really show their strengths.**



SBB would also try to be a **thought leader when** it came to **multimodal freight transport**, Alexander Muhm assured the moderator in response to a question. He had to admit, however, that the topic had disappeared a bit from the agenda with the liberalization of freight transport. In the last two or three years, however, there has been a rethinking. For example, shares in multimodal freight transport have been bought back and a new Group management position has been created. On the basis of traffic forecasts from the ARE, the extent to which rail alone could meet the future challenges in freight transport was also investigated, and it was determined that a **combination of road and rail would be more promising.** This approach was not new, but had already been discussed at SBB in the late 1980s. **It simply has to be done now, but this requires investment.** Freight traffic at SBB has debts of 1.3 billion francs and a business model that makes a loss of 60 million francs every year, warned Alexander Muhm. **A rethink must take place here, because the solution clearly consists of a combination of road and rail, and for this the appropriate infrastructures are needed.**

Hans Häfliger agreed that he was also pleased when the industry pursued its own projects. For him, however, the focus is on how **such measures increase security of supply.** **"If you take the example of Cargo Sous-Terrain from Geneva to St. Gallen, the dependence on foreign countries still remains.** It is therefore important to clearly think through the path to loading these railroads," the delegate for WL demanded. Furthermore, it should not be forgotten that, for example, agricultural production also needs imports, and questions must be asked about the **comparative advantages:** **"Why should the Swiss produce all their food in Switzerland when it is also available abroad?** In exchange, he could give back other goods." This **international openness,** which the Swiss economy has always known, is **an important success factor for Switzerland,** he said. In this regard, he said, there is a need for **more courageous forward thinking at the political level:** "What good is the best railroad if important parts of it are missing in southern Germany and also in northern Italy? Then our infrastructure is also worth

nothing!". It is therefore important to **think in terms of a system approach** and to **look beyond national borders**.

"Securing Freight Routes with State Contracts..."

He had mentioned the potential of the ports of La Spezia and Genoa, the moderator turned to Rainer Deutschmann, and wanted to know to what extent there was potential there (e.g. in the form of its own terminals) for Switzerland to **secure deliveries even in times of crisis**. Not necessarily in relation to the ports in question, but in principle he certainly still sees potential for Switzerland, Rainer Deutschmann replied. If you look at globalization, **Switzerland is probably the most open country in the world, EU discussion or not**. Switzerland is very good at networking, and he sees great potential here: **"We have above-average language skills and above-average communication skills. These skills could also help us in times of crisis, for example, to create corridors through which deliveries can continue to be made via state treaties."** In general, he also sees a lot of potential in **operational risk considerations**. In this way, the individual supply chains could be examined even better with regard to their operational risks. **But if he could only express one wish to the state, it would be that the most important corridors be contractually secured by the state.**

Question and answer session

The moderator then opened the discussion to questions and contributions from the audience. **Friedhelm Theis from Berlin** took the floor with an interesting food for thought, emphasizing that security of supply **must** also take **into account the dangers emanating from the supplier side**, especially when sensitive institutions such as the **military or the police** are located on the recipient side. In particular, certain government agencies would pose a great danger here by supplying unclean goods or failing to deliver at all.

Flavio Häner from the Canton of Basel-Stadt, responsible for the **protection of critical infrastructure**, explained that there is a coordinate in the Canton of Basel-Stadt through which 75% of all goods pass. He therefore wanted to know from the panel experts who was **responsible for the security of this coordinate and the associated infrastructure**. Hans Häfliger took up the question and assumed that the questioner was **alluding to the protection of the infrastructure in the port of Basel**. However, this did not concern his area of responsibility per se. **His task was to ensure that the infrastructure could be used profitably by the economy**. In this context, the question of the interplay between the various modalities - rail, water and road - also arose. It is important not to play them off against each other and to think in terms of supply, and at this point there is also the question of security. With all these security considerations, however, it is important that the functionalities are maintained. **So the question he asks himself is, "What would have to happen for the infrastructures to continue to function, or at least still partially function, in the event of a crisis?"**

To put it somewhat bluntly, the **operator of an infrastructure is responsible for its safety**, Alexander Muhm said in response to the question posed. However, for infrastructures that are declared to be of **national interest** by the federal government, different rules apply again, which places a different obligation on the infrastructure manager. Rainer Deutschmann thanked Flavio Häner for the question. He had had the same question dozens of times and did not know the answer either. **"We might have to change the paradigm once when we talk about critical infrastructure. For me, it would be central that those who own critical infrastructures get help and not simply more obligations,"** he said, making a suggestion on how the protection of critical infrastructure could be better managed.

This also brings him back to his actual vote, Rainer Deutschmann continued: "**Let's develop scenarios together**". In this context, **Hans Häfliger's very good work on the compulsory camps should be mentioned**. There, he had moved to the paradigm of **addressing cumulative hazards. This methodology should be applied more often**, Rainer Deutschmann demanded, because **today's world and its crises are no longer one-dimensional**. Within this framework, he said, it was of course necessary to consider how critical infrastructures could be better protected. This is a task that constantly occupies them at Migros, he said. In September, for example, there will be a joint exercise involving 50 of the company's own sites, around 10 cantons and the army, which will examine the ability to provide integrative leadership within the group in the event of a blackout.

Stefan Holenstein, President of the Federation of Military Societies in Switzerland (VMG), concluded by pointing out that shortages and security of supply are also issues that affect the armed forces. He would therefore like to know from the panel participants which **scenarios they see in the network or at the interface with the army, where the army could or should be deployed in a supporting role**.



This was a difficult question for him because he had last been in the army twenty years ago, Hans Häfliger replied. However, he said, they had already dealt with the issue in the association because they had noticed that the **army had massively reduced capacities in the area of supply in recent years** because it had also been optimized. However, as mentioned in his input presentation, national supply originally came from war supply. The **war scenario is still a possible scenario today, but a very unlikely one**. The paradigm of BWL is therefore also more oriented to other topics such as infrastructures or market failures. **Composite exercises**, such as the one mentioned by Rainer Deutschmann, are nevertheless absolutely **important and necessary**. The question is, however, what exactly should be practiced on. In this context, Hans Häfliger pleaded for **agility: "Of course we have to prepare certain scenarios, but we must not fall into the delusion that everything can be prepared"**. It is important, he said, to know **certain structures and responsibilities, but then a great deal of courage and also a great deal of luck are necessary**.

"The army is one of our favorite customers," said Alexander Muhm, taking up Stefan Holenstein's question once again. SBB maintains a regular exchange with the army and that makes sense. For example, it connects the major army centers and takes over the strategically sensible transport of armored trains by rail. It was true that, as Hans Häfliger had already mentioned, a **great deal of army capacity**

had been "optimized away". In terms of freight transport, however, the army is and remains highly relevant.

In conclusion, Fredy Müller thanked the experts and the audience for the highly informative discussion and also once again the event partners who had made this event possible: Migros, Swiss Pharmacists Association pharmaSuisse, Intergenerika, VSSU, SPA Sicherheit & Schutz and the Swiss Military Association (VMG).



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