Factsheet

Factsheet: Free trade agreement between the EFTA States and the GCC States

Summary

On 22 June 2009 the EFTA States (Iceland, Liechtenstein, Norway and Switzerland) signed a comprehensive free trade agreement in Hamar (Norway) with the member states of the Gulf Cooperation Council - GCC: customs union of the States of Bahrain, Qatar, Kuwait, Oman, Saudi Arabia and the United Arab Emirates). The agreement covers trade in industrial goods (including fish and other marine products) and in processed agricultural products, trade in services, government procurement and competition. In order to take into account the specific aspects of the agriculture markets and policies of the different EFTA states, trade in basic agricultural products is subject of supplementary bilateral agreements concluded by individual EFTA states with the GCC, as is the case in other EFTA free trade agreements. Following the conclusion of the ratification proceedings in all contracting states, the agreements entered into force on 1 July 2014.

The EFTA-GCC free trade agreement improves market access and legal security for exports of Swiss goods and services to the GCC. On the entry into force of the agreement customs duties on exports of industrial products to the GCC will be abolished for more than 90% of tariff lines. Customs duties on a further 6% of tariff lines will be abolished five years after the agreement's entry into force. With regard to trade in services the contracting parties have improved market access commitments beyond the level of the WTO. For access to government procurement markets the contracting parties have agreed to commitments similar to those contained in the plurilateral WTO agreement on government procurement, to which - in contrast to Switzerland and the other EFTA states - the GCC states are not party. With regard to the protection of intellectual property rights, the agreement confirms WTO-level protection and contains a negotiation clause. Also in relation to investment outside the service sector the contracting parties have agreed to hold negotiations on market access (pre-establishment) at a later time. The protection of existing investments (post-establishment) continues to be ensured by the existing bilateral agreements on the promotion and protection of investments between Switzerland and the different GCC states.

Importance of the EFTA-GCC Agreement

The new agreement improves competitiveness of economic actors from Switzerland and the other EFTA States on the markets of the GCC States, and helps to prevent discrimination in relation to foreign competitors who benefit, or will benefit, from preferential with the GCC. The GCC area is an important export market for Switzerland with significant potential for growth, on which the Swiss economy will be better positioned thanks to the improved framework conditions and greater legal security provided by the agreement. In terms of trade volume, the GCC is Switzerland's fifth largest free trade partner after the European Union, China, Hong Kong and Japan.

The agreement provides significant added value to the Swiss economy, particularly in terms of trade in goods, trade in services and government procurement. In other fields (investment, intellectual property), the parties have agreed to include evolutionary clauses , due to the fact that legislation within the GCC diverges considerably in these areas inhibiting to agree on a balanced level of commitments.

Economic relations between Switzerland and the GCC states

In 2013 Swiss exports to the GCC area amounted to CHF 6.9 billion, while imports amounted to close to CHF 1 billion. Switzerland's main exports to the GCC are pharmaceutical products, watches, machinery, precious metals and jewellery. The main imports from the GCC States are precious stones, precious metals and jewellery. Given their function as a regional trade hub, the United Arab Emirates (UAE) rank first among the GCC States in terms of exports and imports in relation to Switzerland.

At the end of 2012 the capital stock of Swiss direct investment in the GCC area amounted to CHF 11.3 billion, of which around CHF 9 billion was held in the United Arab Emirates. This high level of investment in the UAE is related to the country's role as a hub for direct investment (holding location). The main beneficiaries of investment in the GCC states besides companies from the manufacturing industry are companies of the services sector, particularly financial services, the hotel and tourism industry, logistics and other business services. As of the end of 2012 direct investments from the GCC states in Switzerland amounted to CHF 209 million.

Main provisions of the agreement

The FTA between the states of EFTA and the GCC covers a comprehensive range of sectors. It contains rules and market access commitments on trade in industrial products (including processed agricultural products and fish), on trade in services and on government procurement, as well as general rules on competition and intellectual property. For investment and for more specific rules on intellectual property provision is made for negotiation clauses.

Customs duties on **industrial products,** as well as on fish and other marine products, will generally be abolished at the entry into force of the agreement. For certain products the GCC will abolish customs duties after a transitional period of five years, certain particularly sensitive products are excluded from tariff dismantling. In terms of **processed agricultural**

products the EFTA states grant the GCC comparable market access conditions to those afforded to the EU (elimination of industrial protection). The application by the EFTA States of compensating the processing industry for commodity price disadvantages through export contributions remains possible. The GCC states grant the EFTA states tariff-free imports for selected processed agricultural products (e.g. soups and sauces, beverages, yoghurt, cocoa powder) effective from the entry force of the agreement, or after a transitional period of five years. A revision clause provides for a periodic review of the scope of application and the possibility of extending it to further products. The GCC States have excluded from the agreement selected processed products which cannot be marketed for religious reasons (e.g. products containing alcohol). With regard to national treatment, quantitative restrictions on imports and exports, state trading enterprises, and exceptions (particularly to protect public order, health and domestic and external security) the agreement adopts the relevant WTO provisions, which are incorporated into the FTA. With regard to sanitary and phytosanitary measures, technical regulations, subsidies, and compensatory, anti-dumping and safeguard measures, the FTA refers to the relevant WTO/GATT provisions.

Trade in **basic agricultural products** is defined in bilateral agreements, which Iceland, Norway and Switzerland have concluded individually with the GCC. The GCC States grant Switzerland duty-free access from the entry into force of the agreement or after a five-year transitional period for a wide range of basic agricultural products (e.g. meats including dried meats, cheese, coffee, vegetables). The concessions made by Switzerland consist of the reduction or elimination of import duties (within the bounds of WTO tariff quotas and seasonal restrictions) on selected agricultural products of specific interest of the GCC States (particularly live animals, potato plants, vegetables, nuts, fruits, certain types of sugar, fruit juices). Switzerland's concessions are within the scope of its prevailing agriculture policy. The agricultural agreement contains an evolutionary clause, which allows for the further liberalisation of trade in basic agricultural products within the scope of the respective agriculture policies.

The **rules of origin** are generally based on the European model. They have however been simplified and diverge somewhat from the European rules, particularly with regard to chemical products (less restrictive rules) and in the watch sector (more restrictive rules). The agreed rule on direct transport allows the splitting up of consignments under customs control in third countries without losing the status of an originating product. Until the Gulf Cooperation Council introduces an invoice declaration system with another free trade partner, a movement certificate (EUR.1 movement certificate) must be provided as proof of origin.

With regard to **trade in services**, the FTA adopts the definitions and disciplines (four modes of supply, most favoured nation treatment, market access, national treatment, exception clauses, etc.) of the General Agreement on Trade in Services (GATS) of the WTO with some provisions contain additional points. Furthermore, the annexes on financial services, telecommunications services, recognition of qualifications, and movement of natural persons contain specific sectoral rules, some of which go beyond the level provided for in the GATS. Also the commitment level regarding market access and national treatment for services has been improved compared to the GATS. Of particular importance to Switzerland are the GCC commitments with regard to financial services, the admission of specialists to install and maintain industrial facilities, the transfer of managers of multinational enterprises as well as business services, professional services and distribution services. The agreement also contains an annex on electronic commerce, which mainly envisages an exchange of information on this type of commerce.

The various GCC States have differing, or no specific, rules regarding **competition law**, which is why the corresponding provisions are limited to general obligations on the part of the parties (avoidance of anticompetitive business conduct that restricts trade) and consultations on questions of competition. Furthermore, the agreement contains an evolutionary clause with a view to the adjustment of the competition provisions to new developments, particularly in the event that new competition laws are passed.

The parties commit themselves to ensuring adequate and effective **protection of intellectual property**. The national treatment and most favoured nation principles defined in the WTO TRIPS agreement apply. Due to the differing protection standards among GCC States it was, for the time being, not possible to include detailed provisions on the protection of intellectual property. A negotiation clause provides for the negotiation of an annex containing specific provisions on the protection and enforcement of intellectual property rights within two years of the entry into force of the agreement. In the meantime provision is made for a consultation mechanism in the event of problems.

The rules on **government procurement** are on a par with those of the WTO Government Procurement Agreement (GPA 1994). The agreed level of market access also corresponds largely with that of the GPA. This is all the more important as, in contrast to the EFTA states, the GCC states are not members of the GPA of the WTO and are not currently considering acceding to this agreement. In addition, there is a negotiation clause in the event that one of the parties affords additional concessions to a third country after the entry into force of the agreement.

A **Joint Committee** composed of representatives from each party is established to supervise, administer and oversee the development of the agreement. In the event that **disputes** should arise in the application of the agreement, the parties are required to seek a resolution through consultation. If this is unsuccessful the establishment of an arbitration panel can be requested, whose rulings are binding on the parties.

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Further information:

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Legal texts: http://www.efta.int/free-trade/free-trade-agreements/gcc.aspx