



Factsheet

Free Trade Agreement between Switzerland and China

Summary

A comprehensive bilateral Free Trade Agreement (FTA) between Switzerland and the People's Republic of China was signed by Federal Councillor Johann Schneider-Ammann and the Chinese Minister of Commerce on 6 July 2013. A bilateral agreement on labour and employment issues was signed simultaneously by Federal Councillor Johann Schneider-Ammann and the Chinese Minister of Human Resources and Social Security. Following initial exploratory contacts in November 2007, joint workshops in 2009 and a joint feasibility study in 2010, the negotiations were officially launched in January 2011. The agreement was then negotiated in nine rounds of negotiations and various intersessional meetings from April 2011 to May 2013. After the notification of the completion of the internal procedures of approval (on the Swiss side approval by the two chambers of Parliament) in April 2014, the FTA will enter into force on 1 July 2014 and the agreement on labour and employment issues on 9 June 2014.

The FTA will improve mutual market access for goods and services, enhance legal security for the protection of intellectual property and for bilateral economic relations in general. Together with the related agreement on labour, it contributes to sustainable development and promotes cooperation between Switzerland and China. For the vast majority of bilateral trade, the FTA will dismantle tariffs fully or partially, sometimes subject to transition periods. In the area of technical barriers to trade and sanitary and phytosanitary measures, sector-specific cooperation agreements aim at reducing non-tariff barriers to trade. For trade in services, more precisely defined rules compared to the agreement on trade in services GATS of the WTO will apply, e.g. for approval processes, as well as improved market access commitments for various services. Regarding intellectual property, the level of protection in selected areas will be improved compared to the multilateral standards of the WTO, including in the area of enforcement. The FTA provides for coherent implementation, orientated towards basic principles of international relations and the objective of sustainable development. To this end, the preamble stipulates basic principles of the UN and of public international law, while other provisions of the FTA and the parallel agreement on labour and employment issues concluded simultaneously with the FTA contain rules on environmental and labour issues respectively. Finally, the FTA provides for the deepening of bilateral cooperation in various other fields.

Importance of the Free Trade Agreement for Switzerland

China is the world's second largest economy after the United States and one of Switzerland's most important foreign trade partners. China is the largest buyer of Swiss industrial products in Asia and the third largest worldwide (after the EU and the United States). In 2013 Switzerland exported goods to the value of CHF 8.7 billion to China (4.1% of all Swiss exports), with Swiss imports from China totalling CHF 11.4 billion (6.1% of total imports). The main products exported by Switzerland to China include machines and instruments, watches and chemical and pharmaceutical products. Swiss imports from China include machinery, textiles and clothing, and watchmaking and chemical products. Also trade in services is of importance. Many Swiss service providers operate in China (including banks, insurance companies, logistics companies, quality inspection companies, management consultants). Conversely, Chinese service providers show increasing interest in Switzerland as a business location.

The agreements cover the following subjects: trade in goods (industrial and agricultural products), rules of origin, customs procedures and trade facilitation, trade remedies, technical regulations, sanitary and phytosanitary measures, trade in services, protection for intellectual property, competition, investment promotion, transparency in government procurement, trade-

related environmental and labour issues, economic and technical cooperation, institutional provisions (Joint Committee, consultation process, dispute settlement).

With such comprehensive coverage, the FTA establishes preferential trade relations for goods and services between Switzerland and China, facilitates two-way trade, strengthens the protection of intellectual property and generally improves legal security for economic exchange. Together with the Agreement on Labour and Employment, it will promote bilateral cooperation between Switzerland and China and contribute to sustainable development. From a Swiss perspective, the FTA enables a competitive advantage compared to countries which have do not have a FTA with China. At the same time, the FTA prevents discrimination against Swiss economic operators compared to China's existing and future free trade partners. The Agreement also establishes an institutional framework for cooperation between authorities for the monitoring and further development of the agreement and for resolving specific issues.

Since the economic relations of Switzerland with the large and fast-growing Chinese market are very important for the diversification of Swiss export destinations as well as for the procurement of imports, the FTA between Switzerland and China will significantly contribute to strengthening the position of Switzerland as a business location.

Key Provisions of the Agreement

Preamble

The preamble lays down the general framework and objectives of the FTA. The contracting Parties recognize that economic and social development and environmental protection are interdependent elements of sustainable development. The Parties are pursuing the aim of furthering prosperity and employment while implementing the FTA with a view to promoting sustainable development and to strengthening their cooperation in this respect. The Parties confirm the obligation to respecting fundamental values and principles of international relations and public international law (including democracy, freedom, social progress, justice and the rule of law), and the Memorandum of Understanding concluded between Switzerland and China in 2007 for promoting dialogue and cooperation is referred to, which reaffirms among other things the bilateral dialogue on human rights between Switzerland and China which was initiated in 1990. The two sides reaffirm their commitments under the Charter of the United Nations (which stipulates that the promotion of human rights and basic freedoms are a principal goal of the community of States) and recognise the importance of good corporate governance and corporate social responsibility.

Scope

The agreement applies to the customs territory of the People's Republic of China and to the territory of Switzerland. For trade in goods the agreement also applies to the Principality of Liechtenstein on the basis of the Customs Union between Switzerland and Liechtenstein. Within the framework of EFTA, in 2011 Switzerland had already concluded a free trade agreement with Hong Kong Special Administrative Region of China, which constitutes a separate customs territory.

Trade in Goods

Tariffs:

Regarding trade in goods (industrial products, processed and unprocessed agricultural products), the FTA adopts various rules of the GATT¹ (e.g. regarding internal taxation and national treatment, import and export restrictions, state trading enterprises, exceptions).

At the entry into force of the FTA, the remaining Swiss tariffs on Chinese industrial products will be abolished. This means that under the FTA, in addition to the industrial products that - on the basis of the autonomous Generalised System of Preferences for developing countries - can already now be imported, including from China, tariff-free into Switzerland, Chinese textiles and shoes will be granted tariff-free access to the Swiss market. Conversely the vast majority of Switzerland's industrial exports to China will enjoy full or partial tariff dismantling, either from the

¹ General Agreement on Tariffs and Trade of the World Trade Organisation, WTO

entry into force of the Agreement or with dismantling periods of 5, 10 (in a few cases 12 or 15) years. Transitional periods and partial dismantling relate to products for which China has claimed to have a specific need for adjustment given the sometimes substantially higher level of tariffs (e.g. selected products in the watchmaking, machinery and chemical sectors), exceptions from tariff dismantling relate to some particularly sensitive tariff lines (notably in the latter two sectors).

The FTA will enable many Swiss agricultural products with export potential (including dairy products such as cheese, yoghurt, skimmed milk powder and butter, beef jerky, processed products such as chocolate, baby food, biscuits, jams, roasted coffee, confectionery, ice cream, non-alcoholic beverages, wine) to be imported into China tariff-free or at reduced tariffs. Conversely, within the framework of its agricultural policy, Switzerland will grant preferential tariff treatment for selected products (in the area of basic agricultural products e.g. for tropical products, for imports outside the harvest periods in Switzerland or within the WTO tariff quotas, in this context e.g. for certain meat products, honey, cut flowers, certain vegetables and fruit as well as certain fruit juices). Swiss regulations on product safety, health and labelling continue to fully apply. As in previous FTAs, the industrial protection element will be removed from the import tariffs on processed agricultural products (pastries, chocolate, sugar confectionery, pasta, etc.), with an additional reduction being granted for specific tariff lines which are of particular export interest to China (primarily in the area of sugar, bakery and pasta products and peanut butter). The compensation of price disadvantages regarding basic agricultural inputs in exported processed products according to the "Chocolate-law" continues to be possible.

With a view to further improvements of market access conditions, the Agreement includes a review clause which provides for a biennial review of the tariff concessions.

Rules of Origin:

The processing which has to take place in the Party State regarding the various product categories to benefit from the tariff concessions of the FTA as originating products is defined, according to standard FTA-practice, in so-called list rules. The list rules agreed with China take account of current production methods, allowing for effective utilization of preferential market access. For industrial products, in most cases a change in the four-digit tariff heading or domestic value added of 40% (in relation to the ex-factory price) confers origin status. As in previous Swiss FTAs, the list rules for basic agricultural products and processed agricultural products take into account the specific needs of the sector. Originating products of both Parties can be cumulated. The direct shipping rule allows for splitting up of consignments in third countries under customs control, without the products losing the country of origin status.

Proof of origin is provided either by the standard movement certificate EUR.1 (with additional indication of the HS tariff number at 6-digit level and of the applied origin criteria) or by the declaration of origin on the invoice or shipping note ("self-declaration"). The declaration of origin allowing to provide proof of origin without any additional forms is reserved for authorized exporters. The declarations of origin must be numbered consecutively. Requests for verification must be answered within a period of six months.

Trade Facilitation:

The provisions on trade facilitation oblige the Parties to comply with international standards when designing customs procedures. Furthermore, the Parties undertake to publish laws and regulations relevant for trade in goods, to cooperate in the area of trade facilitation, to issue binding information to economic operators on tariffs and origin and to base inspection at customs on objective risk assessment.

Trade Remedies:

For anti-dumping measures, subsidies and related countervailing duties, the FTA refers to the relevant provisions of the WTO. In addition, prior bilateral consultations between the Parties are foreseen. The agreement further allows the Parties to apply bilateral safeguard measures subject to certain conditions. If tariff concessions under the FTA should lead to an increase in imports to such an extent as to cause or threaten to cause serious damage to a domestic industry, tariff concessions may be temporarily suspended.

Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS):

The provisions on TBT and SPS include various rules over and above those of the WTO, particularly with regard to basing national regulations on standards and guidelines of recognised international standardisation organisations. The high standard of health and safety protection in Switzerland remains unaffected.

The FTA provides for an intensification of cooperation on TBT and SPS issues between the competent authorities, a key factor for pragmatically resolving specific problems and concerns of companies in this area. In the area of SPS the aim is, e.g., to limit the number of Chinese inspections of production sites in Switzerland. These provisions are supplemented by four additional agreements. In the areas of telecommunications equipment, certification/accreditation and SPS, the agreements provide for an intensification of the existing cooperation between competent authorities; in the area of measuring equipment and instruments the agreement provides for mutual recognition of test results. A fifth supplementary agreement provided, as a transitional measure, that the four above-mentioned agreements are applied on a provisional basis from the date of the signing of the FTA until its entry into force.

Services

The provisions on trade in services are based on the GATS², adopting its definitions and relevant rules (in particular the four modes of supply³, market access, national treatment, exceptions), or adapting them to the bilateral context or wording them more specifically (e.g. domestic regulation, payments and transfers). The rules of the agreement apply to all measures affecting trade in services, taken at central, regional and local government levels, and by non-governmental bodies performing delegated regulatory functions. The general obligations apply to all service sectors with the exception of rendered by government bodies in the performance of sovereign competencies (i.e. on a non-commercial basis and not in competition with other suppliers). As in the GATS, traffic rights in air transport are not covered by the FTA.

By rules more precisely specified compared to the GATS, e.g. regarding transparency and licensing procedures, legal security is enhanced. Sector-specific provisions for financial services specify, e.g., the rules for supervisory measures (these are required to be reasonable and may not discriminate against foreign suppliers in favour of domestic ones) and include specific transparency and information obligations with regard to financial regulation. The provisions relating to the supply of services by natural persons limit the categories of persons covered by the FTA (intra-corporate transfers of executives and specialists, highly qualified providers of certain short-term contractual services, sales persons, business visitors) and specify certain framework conditions for procedures concerning work and entry permits (as regards transparency, time limits and obligations to provide information). Measures governing access to the labour market or permanent residency remain unaffected by the FTA.

As in the GATS, the specific commitments regarding market access and national treatment are specified in positive lists. Compared with the GATS, China's commitments contain additional sectors and improvements in areas such as environmental services (waste water treatment, emission and noise control services), financial services (in particular securities services), air transport services (aircraft maintenance and repair, ground handling), logistics services (customs clearance services) and for providers of short-term contractual services (in particular installation and repair of machinery, architects and engineers). Switzerland improves its specific commitments in relation to private sector training services (foreign languages in particular), financial services (e.g. cross-border aircraft liability insurance, issues of securities in Swiss francs), air transport services (ground handling, airport management) and for additional activities by highly qualified providers of short-term contractual services (in particular installation and repair of machinery, engineers and management consultants). As in the GATS, Switzerland does not undertake, or limits, commitments in various sectors (e.g. audio-visual and cultural services, concessioned transport services, cantonal buildings insurance, public education and

² General Agreement on Trade in Services of the World Trade Organisation (WTO)

³ (1) cross-border supply of services; (2) consumption abroad; (3) commercial presence abroad; (4) supply of services by natural persons deployed abroad

health services). Furthermore, both sides reserve the same exemptions from MFN as in the GATS (Switzerland e.g. in areas where there are bilateral agreements with the EU). Regarding traditional Chinese medicine (TCM) a dialogue is foreseen with a view to strengthen cooperation. A review clause provides for a biennial review of the lists of commitments with regard to further liberalisation of trade in services.

Protection of Intellectual Property Rights

As regards the protection of intellectual property, the Parties commit to apply high level international standards in accordance with the principles of MFN and national treatment. The Parties undertake to deepen their cooperation within the framework of the institutionalized bilateral dialogue on intellectual property which was initiated in 2007.

Compared to the multilateral standards of the TRIPS Agreement⁴, the level of protection in various areas is enhanced or specified more precisely. E.g., in the area of copyright, the rights applicable to audio media under the WIPO Agreement⁵ are extended to audio-visual media (video, DVD, etc.). Protection must be provided for acoustic trademarks as a new category of trademark. In the field of patents, the patentability of biotechnological inventions is specified in accordance with the European Patent Convention. Furthermore, the Parties may require when a patent is filed which is based on genetic materials or traditional knowledge that such materials and knowledge are revealed. The confidentiality of test data to be submitted in relation of marketing approval procedures for pharmaceutical and agro-chemical products must be protected for at least six years. The level of protection for geographical indications for wines and spirits under article 23 TRIPS is extended to all products. Goods and services must be protected from misleading indications of origin, and country names, national flags and coats-of-arms of the Parties must be protected from misleading use and registration as company or brand names. Compared to the UPOV⁶ Convention (1978 version, of which China is a signatory) the protection for new varieties of plants is extended to the exportation of such varieties. Furthermore, in the 2016 revision of the national list of protectable varieties, China declares that it is prepared to give priority to certain plant varieties which are important to Swiss industry.

With regard to enforcement, the FTA provides that measures taken by customs authorities to combat counterfeiting and piracy are to be applied not only at import of goods but at export as well. The seizure of suspect products (on an ex officio basis or at the request of the rights holder), as well as the possibility to analyse samples and specimens of retained goods, is foreseen. The measures shall apply in the event of infringement of trademarks and copyrights, as well as of patents and protected designs. In addition, civil and criminal proceedings for the prosecution of breaches of the law and for claiming compensation have to be made available, with a possibility to order precautionary measures as well as immediate provisional measures. In civil proceedings measures both against infringing goods and against materials and tools which were used for the production of such goods must be available (including confiscation and destruction). Finally, the agreement contains general and specific review clauses (e.g. in the case of protection for plant varieties) with a view to further improvements of protection.

Investment promotion

The provisions relating to investment promotion supplement the bilateral agreement between Switzerland and China on the promotion and mutual protection of investments (investment protection agreement BIT) which came into force in April 2010. The BIT remains in force unchanged, consequently the provisions of the FTA are confined to investment promotion. In this regard, cooperation between the Parties will be strengthened (e.g. in the form of exchange of information on investment regulations and investment promotion measures), and investors will be supported in gaining a better understanding of the investment and regulatory environment. A review clause foresees regular examination of investment regulations and, at the request of a

⁴ Agreement on Trade Related Aspects of Intellectual Property Rights of the World Trade Organisation (WTO)

⁵ World Intellectual Property Organisation

⁶ International Union for the Protection of New Varieties of Plants

Party, negotiations will take place should a Party conclude an agreement with a third country which foresees better treatment than the one granted to the other Party.

Competition

The Parties are required to apply their competition law with the aim of preventing anti-competitive practices by companies (in particular agreements, abuse of dominant market positions and anti-competitive mergers) diminishing the advantages resulting from the agreement. The competition authorities will work together to effectively implement their respective competition law regarding cases which affect trade between the Parties. At the request of one of the Parties consultations will be held in the Joint Committee to resolve differences of opinion.

Environmental issues

By the provisions of the agreement on environmental issues, the Parties acknowledge the principle that economic development, social development and environmental protection are mutually supportive elements of sustainable development. They reaffirm their commitment to promoting economic development and bilateral trade in a way that contributes to sustainable development, and to effectively implemented in national law and practice the multilateral environmental agreements and the obligations under other multilateral environmental instruments applicable to them. They will endeavour to improve the level of environmental protection, in particular through effective implementation of their environmental legislation. The Parties acknowledge that the level of environmental protection as laid down in national legislation shall not be reduced in order to attract investment or to obtain a trade advantage and that environmental standards should not be abused for protectionist purposes. The Parties will seek to facilitate investment and the dissemination of goods, services and technologies which have a beneficial effect on the environment, as well as to promote cooperation between companies in this respect. They will also intensify their cooperation on environmental issues on the bilateral and multilateral levels.

Specific points of contact are defined to facilitate the implementation of the environmental provisions. At the request of a Party, consultations on matters which fall under the environmental provisions will take place in the Joint Committee of the FTA. Differences of opinion over the application of the environmental provisions are to be resolved by the Parties within this framework. A review clause provides that the Parties periodically review progress made in the implementation of the objectives on environmental issues, taking into account relevant international developments.

Economic and technical cooperation

The provisions on economic and technical cooperation establish that the objective of cooperation is to promote the mutual benefits of the agreement in the spirit of sustainable development, including in relation to trade and investment opportunities and through strengthening competitiveness and capacity for innovation. Potential areas for cooperation include sustainable development, in particular relating to environmental and labour issues, with a reference to the agreement on cooperation in labour and employment issues concluded simultaneously with the FTA (see below), as well as the areas of services, industry, agriculture, protection of intellectual property and quality control. The envisaged areas of cooperation are described in more detail in a separate work programme, e.g. in the areas of industry (establishment of a Working Group on watches and clocks), health (including traditional Chinese medicine), services (including tourism), agriculture (including ecologically sustainable production), quality control (including product safety), protection of intellectual property (protection standards and enforcement).

Within the framework of the provisions on economic and technical cooperation, the Parties agree to hold consultations and to cooperate in the area of **government procurement**. In addition, the agreement provides for specific obligations to transparency and points of information on government procurement. Furthermore, the Parties undertake to start negotiations on a bilateral agreement on government procurement once the current negotiations on China's accession to the GPA⁷ will have been completed.

⁷ Agreement on Government Procurement of the World Trade Organisation (WTO)

Joint Committee and dispute settlement

A Joint Committee with equal representation and taking decisions by consensus is established in order to monitor the implementation and further development of the agreement. The Joint Committee meets at least once every two years. The on-going communication between the Parties will take place through designated contact points. The Joint Committee will be assisted by a number of sub-committees (on origin issues, customs procedures, TBT, SPS, and services). The Joint Committee may appoint additional sub-committees and working groups if needed.

In the event of differences of opinion over the application of the FTA, the Parties are required to resolve these by way of consultation. Failing this, an inter-governmental arbitration procedure can be convened for specific areas. The decision of the arbitration panel is final and binding on the Parties to the dispute.

Agreement on cooperation on labour and employment issues

Supplementing the provisions regarding the concept of sustainable development in the FTA and its provisions on environmental issues, Switzerland and China concluded, in parallel to the FTA, an agreement on cooperation on labour and employment issues. This labour agreement is linked to the FTA by a reference in the FTA.

China and Switzerland reaffirm the commitments arising from their membership of the ILO⁸ including the obligation to effectively implement the applicable ILO conventions. Furthermore, the Parties reaffirm their commitments under the "Ministerial Declaration of the United Nations Economic and Social Council (ECOSOC) on Full Employment and Decent Work" (2006), as well as the "ILO Declaration on Social Justice for a Fair Globalisation" (2008). The Parties reaffirm their resolve to improve working conditions and to protect and enhance the fundamental rights at work. They commit to effectively implement their labour legislations. The Parties acknowledge that the level of labour standards as laid down in the national legislation shall not be reduced in order to attract investment or to obtain a trade advantage, and that labour standards should not be abused for protectionist purposes. The labour agreement underlines the importance of bilateral cooperation on labour and employment issues. This should be carried out in particular in the framework of the bilateral Memorandum of Understanding on cooperation on labour and employment issues of 2011. In order to facilitate its implementation, specific points of contact are established by the labour agreement. In the event of differences of opinion over the application of the agreement, each of the contracting Parties may request consultations between the Parties, within the framework of which they are required to reach a solution. If necessary these consultations may take place at ministerial level.

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Contact/Enquiries:

Christian Etter, Ambassador, Federal Council Delegate for Trade Agreements, Head Special Foreign Economic Service, Foreign Economic Affairs Directorate, SECO, Tel. +41 31 324 0862

⁸ International Labour Organisation (ILO)