



International Market Access

Free Trade Agreement with China – ***A Milestone for Swiss Business***

November 25, 2016

At a glance

The free trade agreement between Switzerland and China has been in force for more than two years now. An interim assessment reveals that not only big Swiss corporations but also many SMEs are taking advantage of easier access to the Chinese market and benefiting from it. We have taken a closer look at how the free trade agreement is working around two years on.

Executive summary

The free trade agreement between Switzerland and China represents a milestone in Swiss foreign trade policy. Signed by the two countries in Beijing on 6 July 2013, this comprehensive bilateral agreement entered into force on 1 July 2014. Switzerland is the first continental European country to conclude an FTA with China. This is an important step both economically and symbolically in enhancing the competitiveness of Swiss companies. The free trade agreement between Switzerland and China has been in force for over two years now. The present "dossierpolitik" has been prepared as an interim report: What experiences have Swiss firms had with application and implementation of the Agreement? What are the challenges they face and what are the prospects? Even before it came into force Swiss firms showed a great deal of interest in the Agreement. The information event held by *economiesuisse* in June 2014 was attended by SMEs and large corporations from various industries and every seat was taken. The signalling effect of obtaining privileged access to the large and growing Chinese market prompted Swiss businesses to action, which in the past had had little or no use for FTAs. Overall the vast majority of customs tariff lines and Swiss export volumes (roughly 95 percent) enjoy tariff dismantling. These were either implemented with entering into force of the FTA or through annual reduction steps within transitional periods (of mostly five or ten years, but in some cases twelve or fifteen years. For roughly three percent of tariff lines, or roughly 16 percent of export volume) tariffs are reduced by 60 percent. China and Switzerland have also agreed on improvements in the areas of intellectual property, customs procedures and services. As far as agricultural products are concerned the interests of Swiss farmers remain protected. The second meeting of the Joint Committee on the free trade agreement between Switzerland and China was held in Beijing in September 2016. The review clause anchored in the Agreement provides that tariff concessions under the Agreement are to be reviewed every two years. This was the first time in 2016.

Positions of *economiesuisse*

- The free trade agreement between Switzerland and China is an important achievement, giving Swiss businesses privileged access to the large and fast-growing Chinese market.

- The review clause in the free trade agreement provides for periodic review of the agreed tariff concessions. As such it is not a static agreement, which is a positive point for businesses.
- The FTA does not yet provide for complete elimination of all tariffs. For Swiss exporters it is therefore important that further tariff concessions on imports of their goods into China are concluded.
- To make use of the Agreement, import/export firms have to meet additional requirements, particularly in the area of proof of origin. Minimising paperwork and documentation required in China is thus important for Swiss enterprises.
- China's systematic routine inspection of direct transport creates an unnecessary administrative burden for businesses. Companies should be relieved from having to provide additional details proving that such shipments passed through third countries are subject to permanent customs controls. Essential to receive preferential shipping treatment is the proof of origin which can be verified. Switzerland should discuss the benefits of a risk-based approach with China.
- The improvements in intellectual property protections are welcomed. With this Switzerland and China have partially gone beyond the scope of the WTO TRIPS Agreement.



China is Switzerland's ***most important Asian trade partner***

China has become a heavyweight trading partner for Swiss businesses in recent years. As the second largest economy in the world the country is Switzerland's third-biggest foreign trade partner (following the EU and US) and largest trade partner in Asia. With a trade volume currently exceeding 21 billion Swiss francs, China is Switzerland's most important trade partner in Asia. Domestic enterprises invested 3.3 billion Swiss francs in China in 2014 (capital flow). This takes total Swiss direct investment in the country up to 20.3 billion francs in 2014 (capital stock), comprising 1.9 percent of all Swiss direct foreign investment. China has thus become the chief investment location for Swiss firms in Asia. According to the Swiss Embassy in Beijing, there are currently more than 600 Swiss companies operating in China with more than 1,000 business locations, employing a total of 178,826 staff. There is also substantial trade in services. Numerous Swiss service providers are active in China (including banks, insurance companies, logistics providers, goods and quality control providers and consultancies). Chinese service firms are also becoming increasingly interested in Switzerland as a business location.

Die Handelsbeziehungen zwischen der Schweiz und China verzeichneten in den letzten beiden Jahrzehnten eine eindruckliche Entwicklung. Seit 1990 haben sich die Exporte mehr als verzwanzigfacht und die Importe sind zehn Mal höher als vor rund 20 Jahren. Das Freihandelsabkommen hat dieser

Entwicklung einen zusätzlichen Schub gegeben. Im ersten Jahr nach dessen Inkrafttreten stiegen die Schweizer Exporte nach China um 2,3 Prozent, die Importe von China in die Schweiz nahmen um 4,1 Prozent zu. Vor dem Hintergrund der langsamer wachsenden chinesischen Wirtschaft und im Vergleich mit allen anderen Handelspartnern (Exporte +0,9 Prozent, Importe -4,2 Prozent) entwickelte sich der Handel überdurchschnittlich gut. Es darf nicht vergessen werden, dass trotz des geringeren BIP-Wachstums Chinas dieses noch immer zwischen sechs und sieben Prozent liegt. Schweizer Unternehmen bietet sich deswegen noch viel Potenzial, ihre Geschäftsbeziehungen mit China zu vertiefen und auszubauen. Die positive Entwicklung dürfte sich nicht nur angesichts der noch immer wachsenden Wirtschaft, sondern auch aufgrund des strukturellen Wandels weiter fortsetzen. Produktionsanpassungen hin zur Herstellung hochwertiger Produkte und eine zahlenmässig immer grösser werdende Mittelschicht mit einer rasant wachsenden Kaufkraft dürften auch für Schweizer Unternehmen positive Auswirkungen haben. China hat sich in den letzten Jahren zu einem Marktführer in der Hightechbranche gewandelt. Sein Anteil am weltweiten Hightechexport ist in den letzten Jahren stark angestiegen. Das Reich der Mitte produziert beispielsweise mehr als die Hälfte aller weltweit nachgefragten Solarpanels und Windturbinen. Aber auch in der Elektro-, in der Medizinaltechnik oder in der Elektronik hat China stark aufgeholt.

Over the last two decades, trade relations between Switzerland and China have flourished impressively. Exports having risen over twenty-fold since 1990 while imports are at ten times the level of twenty years ago. The free trade agreement has accelerated these developments. In the first year after the Agreement entered into force Swiss exports to China increasing 2.3 percent and Swiss imports from China rising 4.1 percent. In view of the slower pace of growth of the Chinese economy and compared with all other trade partners, trade performed above average (exports +0.9 percent, imports -4.2 percent). It should not be forgotten that despite a lower GDP growth China is still growing between six and seven percent. Swiss enterprises thus see major potential for strengthening and expanding their business relations with China. In addition to continuing economic growth, structural changes are underway which will be conducive to furthering these relations. Production is being shifted over to premium quality products, and a growing middle class is making rapid gains in purchasing power – developments which will have positive effects for Swiss firms. In recent years, China has transformed itself into a leader in the high-tech

sector. Its global market for high-tech exports has grown substantially. For example, the country now produces more than half of the world's demand of solar panels and wind turbines. China has also gained major ground in the electrical industry, in medical technology and in electronics.

Bilateral trade between Switzerland and China has surged dynamically and at an extraordinary pace in recent years. The growing consumption of China's rising middle class is opening up opportunities for Swiss firms in numerous industries. The free trade agreement between Switzerland and China will promote further substantial increases in bilateral trade and direct investment. The Agreement creates valuable business opportunities for Swiss businesses. Especially for innovative SMEs offering high-quality niche products new export possibilities arise, for example, for the SME Precimec SA based in Ticino, which is discussed further below. Over the next few years, privileged access to the Chinese market will give Swiss enterprises a competitive advantage over firms from countries which do not have a free trade agreement with China (like the EU and US).



The Swiss-Chinese Free Trade Agreement *at a glance*

Numerous provisions of this extensive Agreement give domestic companies better access to 1.3 billion potential customers in the Chinese market.

Reduction on customs duties

Overall most of customs tariff lines and Swiss export volumes (about 95 percent) have either been exempt from duties or enjoyed a reduced customs duty rate since the FTA entered into force, or they will be after a transition period of five or ten years, or in exceptional cases 12 or 15 years. Far around three percent of tariff lines, or around 16 percent of export volumes tariffs are reduced by 60 percent. Transition periods and partial exemption concern products for which China has claimed to have a specific need for adjustment due among other factors to substantially higher tariff levels for industrial products (8.6 percent versus 1.8 percent for Switzerland). For around five percent of Swiss export volumes there has been no reduction of customs duties up to now. Certain differences exist in regard to industry sectors. Particularly affected by Chinese protection requirements are selected 'MEM' products (mechanical and electrical engineering and metals), chemicals and pharmaceuticals, textiles and clothing as well as watches, precision instruments and jewellery. In 2015, precision instruments, watches and jewellery accounted for 27 percent of Swiss exports to China, totalling 2461 million francs in value. Watches

comprised 14.9 percent of total Swiss exports to China, at a volume of 1337 million francs. To strengthen cooperation in the watch sector, the Swiss and Chinese watch industry federations, SECO and the Ministry of Industry and Information Technology (MIIT) signed a Memorandum of Understanding (MoU) in May 2013. This provides for the creation of a working group comprised of business and administration representatives designed to function as a platform for economic dialogue and cooperation. The memorandum is aimed at promoting trade flows, intellectual property protections and appellations of origin. The working group has met twice in the meantime to constructively discuss these topics. The Swiss watch industry is interested in particular in the removal of tax obstacles and better enforcement of intellectual property laws in Chinese territory.

MEM: The 'MEM' sector – mechanical and electrical engineering and metals – comprised 38 percent of Swiss exports to China in 2015 at a volume of 3380 million francs.

Chemicals and pharmaceuticals: The chemical and pharmaceutical industries exported goods valued at 3358 million Swiss francs in 2015, comprising 37.5 percent of exports to China.

Textiles and clothing industry: The textiles and clothing industries exported approximately 105 million francs to China in 2015, comprising 1.2 percent of exports to China. Chinese textiles and clothing can be imported exempt from duty since entry into force of the Agreement (e.g. fabrication materials like yarns and finished products like home fabrics and fashions). Inversely, certain goods from Switzerland are subject to a tariff reduction schedule when imported into China, especially clothing items. The majority of Swiss exports to China now enjoy a reduction on customs duty rates. By the end of the transition periods, roughly 80 percent of customs duties on Swiss export goods can be saved. This underscores the extent to which China is opening its markets. The Review Clause anchored in the Agreement provides for review of the agreed tariff concession lists every two years. Members of the Joint Committee on the FTA between Switzerland and China convened for their second meeting in Beijing on 14 September 2016 to discuss the further development of the Agreement. For Swiss exporters it is important that further tariff concessions on imports of their goods into China are concluded. Mutual advantages and benefits of improved/preferential access to the Chinese market for Swiss goods are to be highlighted: Chinese firms get better purchasing prices on high-quality intermediate consumptions and benefit from Swiss know-how, while Swiss firms are able to sell their products – in some cases high-tech niche products – in the Chinese market at competitive prices. Swiss goods complement Chinese and do not compete

against it. economiesuisse accompanies this process in close coordination with its members and Swiss authorities.



How are you utilising the free trade agreement? ***Information for Swiss exporters and importers.***

Preferential origin

The rules of origin which determine the processing to be carried out in the country of origin, take modern production methods into account. Thereby Swiss producers can actually utilise preferential market access – where goods are either tariff-exempt or subject to lower tariffs. In contrast to other free trade agreements of Switzerland the rules of origin in the FTA with China are not set forth in a separate annex but in the main body of the Agreement itself, in chapter 3. The specific rules governing individual products and product categories are listed in Annex II, "Product-Specific Rules". The usual FTA provisions on bilateral cumulation of originating products are in place. Additionally, 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. Particularly in the initial phase Swiss exporters and importers faced certain difficulties regarding application of the direct transport provisions in accordance with Article 3.13 of the main Agreement (see "Direct Transport Challenges" below).

Bilateral cumulation of originating products

Cumulation is a deviation from the principle that goods must be entirely produced in the exporting country or be processed there to a sufficient degree to qualify as originating goods. Bilateral cumulation allows the goods of the free trade partner to be treated the same as goods originating in the exporting country. This makes it attractive for producers and exporters to use intermediate materials originating in the free trade partner country. These regulations mean that such input materials do not have to meet the strict processing and refinement rules per the list. Using materials originating from a third country is then less attractive because import duties generally have to be paid on these and their use must meet the requirements per the processing and refinement list.

China - Switzerland trade (imports)

With the Agreement entering into force, China's developing country status under the Generalised Scheme of Preferences (GSP) was removed. Thus the GSP certificate of origin Form A is no longer applicable since 1 July 2014. In order to apply for preferential clearance for goods imported to Switzerland from China, as of 1 July 2014 the "Certificate of Origin" (Appendix 1 to Annex III Certificate) represents valid proof of origin for accepting customs declarations. The Chinese authorities have issued this proof of origin since 1 July 2014. For provisional customs clearance applied for prior to 31 December 2014, the customs administration granted a six-month period for submitting missing documents. Since 1 January 2015 the regular two-month period applies to provisional clearance under the Agreement. Swiss importers are responsible for obtaining the retrospective Certificate of Origin from their Chinese suppliers. In addition, Swiss importers have to issue the corresponding clearance instructions to the customs service provider. Challenges: Direct transport importing into Switzerland via the EU customs warehouse Compliance problems with the

direct transport rule initially arose for Chinese products being imported into Switzerland which were temporarily stored in an EU-based logistics warehouse and split up into separate shipments. Because China lost GSP preference status as a developing country when the Agreement entered into force, Swiss importers were faced with the problem that no replacement certificates of origin were issued for shipments split up in the EU. The Federal Customs Administration (FCA) thus developed a new procedure in consultation with the State Secretariat of Economic Affairs (SECO) and business-sector representatives. This enables the importing Swiss company to partially write-off proof of origin for shipments from logistics warehouses.. The basis for this is an agreement between the FCA and the respective company, for which the FCA charges a fee. The company has to meet the requirements for e-dec users. The new procedure applies to all FTAs including the FTA between Switzerland and China, with few exceptions. The warehouses where the goods are stored must furthermore be in regions or countries with which Switzerland has a mutual administrative assistance agreement. Another key requirement is comprehensive accounting by the company. The company must comply with regulations for open customs warehouses in Switzerland regarding inventory recording and handling of goods. The customs administration has several options available for checking record-keeping, being able to audit the supplier (FHA), the company (bookkeeping) or the foreign warehouse (via mutual administrative assistance). It should be noted that a negative result for a review is relevant finding for all items. . Interested companies can file an application with the Swiss Federal Customs Administration, Department of Organisation and Enforcement. The new procedure entered into force on December 1st.

Switzerland - China trade (exports)

The following regulations have been applicable to exports from Switzerland to China since 1 July 2014: Non-approved exporters: Swiss exporters without approved exporter status use the "EUR.1 CN" movement certificate with English-language form. In contrast to other agreements, the six-digit HS number and the origin criterion applied must be stated for each product on the "EUR.1 CN". Approved exporters (AEs): Approved exporters can use the origin declaration on the commercial invoice. Declarations of origin must be consecutively numbered. The 23-digit serial number is comprised of the approval number, date and invoice number. The Agreement also provides for electronic inter-

change of declarations of origin (AE data interchange). Approved exporters must electronically file the issued declaration of origin using a web application of the Federal Customs Administration (FCA). Note that the declaration of origin still has to be presented in paper form for imports to China. Approved exporters received an information bulletin from the FCA in May 2014 specifying details. Additional information on AE data interchange is available at www.ezv.admin.ch.

Challenges: Direct transport documentation in China

Hurdles remained for exporters even after the Agreement had entered into force. Chinese customs required additional documentation for direct shipping imports moved through third countries. Most shipments to China today are transported by sea, necessitating reloading in a third country (such as at Rotterdam port). Swiss exporters had to demand so-called 'non-manipulation certificates' from transit countries, which could be very work-intensive in some cases. Chinese and Swiss customs authorities held several expert meetings. The new rules they agreed for sea freight shipments have significantly improved the situation for Swiss exporters (see FCA circular dated 14/4/2016). For Swiss enterprises it is important to reduce bureaucracy concerning documents to be presented in China to a minimum and be freed of additional information requirements establishing that their shipments through third countries were under constant customs control.



China – a magnet ***for Swiss firms***

Swiss companies view the Agreement as being of major importance. economiesuisse has received much feedback and many questions from its members concerning application and use of the free trade agreement, especially in the first several months after it entered into force. Among them were many export-oriented Swiss SMEs. Questions concerned how to navigate the customs and origin-related provisions so as to benefit from the customs duty advantages, such as the correct assessment of tariffs, application of the list rules, proof and verification of origin and direct transport documentation as well as electronic data interchange for approved exporters. Approved exporters exported more than 52,000 shipments with proof or origin to China in the first year the Agreement was in place, averaging roughly 200 shipments per business day. In May 2016 the Federal Customs Administration wrote to the approximately 2,500 approved exporters registered with 'active' status in the EACN application. The number of origin declarations are uploaded to the application monthly averages between 4,200 and 4,500.

Improvements in the non-tariff area

Compared to other emerging markets China's import tariffs are relatively modest; therefore non-tariff improvements are a highly important element in market access.

Intellectual property: The Agreement contains a number of improvements in the protection of intellectual property. This is an area in which Switzerland and China have gone further than the scope of the WTO TRIPS Agreement. Test data is protected for six years and industrial design for ten years, in some cases 25 years. The existing bilateral dialogue on intellectual property issues has also been incorporated into the Agreement. Protective measures are provided already at the border for suspected breaches of intellectual property rights. Compensation for intellectual property violations may be obtained through civil proceedings. Patents on biotechnology inventions are recognised.

Services: The Agreement builds upon the concepts and rules employed in the WTO's General Agreement on Trade in Services (GATS). A number of horizontal rules (concerning transparency and licensing procedures among other things) have been clarified. This increases legal certainty. The free trade agreement establishes categories of persons for provision of services (company-internal transfers of managers and specialists, highly qualified providers of certain services under temporary contracts, service sellers and business travellers) and outlines the parameters for the work and entry permit procedures for these categories. Measures concerning access to the employment market and permanent residency are not covered by the FTA. Switzerland and China improved on the GATS in structuring their market access obligations in various sectors. China and Switzerland particularly facilitated the provision of temporary services by installation and machinery repair technicians and airport services as well as certain financial services. China has also eased market access for securities trading.

Review clause: The Joint Committee on the free trade agreement between Switzerland and China will review the provisions of the Agreement on trade in goods every two years, including the duty concessions lists. The Joint Committee met in Beijing for its last meeting in September 2016.

Improvements in customs procedures: The free trade agreement also has a section on trade facilitation obligating the parties to accommodate international standards in structuring customs procedures, to publish relevant data on goods trade and to issue binding disclosure to business entities relating to duty rates and origin.

Renminbi hub Switzerland

China is evolving into a major global player in the financial sector as well, and continues to move forward with the internationalisation of its currency, the renminbi (RMB), in a targeted manner. Inclusion of the RMB in the IMF basket of currencies of Special Drawing Rights in October 2016 represented a high point in the dynamic rise of China's currency. In May 2013 China and Switzerland agreed to conduct a financial dialogue aimed at also increasing cooperation in the financial sector. Targeted measures have been implemented to create a framework for positioning Switzerland as an RMB hub, i.e. a centre for clearing RMB-based financial transactions, and as a bridge to China's financial markets. In November 2015 the People's Bank of China (PBC) authorised the Zurich branch of China Construction Bank (CCB) to act as RMB clearing bank in Switzerland. Establishing a Zurich branch of the CCB represents another milestone in the two countries' bilateral financial relations. RMB clearing authorisation facilitates and promotes use of the RMB in cross-border transactions between businesses and financial institutions, as the US dollar is eliminated as an intermediate conversion step in Renminbi to Swiss franc currency exchange. Moreover, development of an RMB market also strengthens Switzerland's position as a financial centre. The renminbi hub Switzerland benefits both countries, as it supports the economic objectives behind concluding a free trade agreement.



Free Trade Agreements: ***Switzerland in global competition***

Switzerland has 30 free trade agreements in place. Free trade agreements are a key instrument for Switzerland as a small, export-oriented country. Their provisions go beyond the scope of existing WTO law, which helps Switzerland improve market access. This is important because the current Doha Round at the WTO has been blocked for years, and extensive further liberalisation on a multilateral level is not to be expected in the near future. Switzerland is in global competition for trade facilitation for example, since 17 June 2013 the US and EU have been negotiating a comprehensive deal called the Transatlantic Trade and Investment Partnership (TTIP). And the twelve Pacific Rim countries (the US, Japan, Canada, Australia, Brunei, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam) have agreed on a comprehensive free trade agreement known as the Trans-Pacific Partnership (TPP).



Summary ***business sector viewpoint***

The Agreement represents a significant improvement overall compared to the situation prior to 1 July 2014. The FTA gives Swiss businesses greater access to the Chinese market and will deliver an advantage over competitors from other countries during the years ahead. *economiesuisse* sees the review clause and the important role played by the Joint Committee as being especially positive factors over the long term. The Agreement can thus be further developed, for example, if China should later conclude a free trade agreement with the EU with better access conditions, China and Switzerland could implement similar facilitations. With the mechanism of the Joint Committee it will be easier to represent and further the interests of Swiss enterprises under the free trade agreement as the basis for serious, sustained dialogue between the trading partners. Reliability and a long-term focus are of particular importance to China. With the free trade agreement China demonstrates that it is committed to opening its markets and does not pursue any protectionist foreign trade policies. The Agreement thus represents a strong policy signal by China to the rest of the world. The free trade agreement represents an important step for

both countries. The symbolism is evident when compared with 1950: Switzerland continues to benefit to this day from the fact that it became one of the first Western nations to recognise the People's Republic of China. Every FTA outlines specific standards and rules which businesses must observe in export and import. Application of rules of origin and the correct issuance of corresponding proof of origin are especially important among these. Companies acquire the specialised knowledge required to take advantage of improved market access conditions in both directions. economiesuisse continues to support the application and implementation of the Agreement together with its members and in cooperation with the Swiss authorities. We work to ensure that Swiss businesses are able to obtain the maximum possible potential of the free trade agreement.

Questions about the free trade agreement?

Businesses with questions about the free trade agreement between Switzerland and China can contact economiesuisse by e-mail or phone (kmu@economiesuisse.ch; pme@economiesuisse.ch; +41 (0)44 421 35 35). We will make the necessary clarifications as quickly as possible.

Links to the most important official documents

The text of the free trade agreement between Switzerland and China and the most important documents are available at:

- www.seco.admin.ch (Abkommenstexte)
- www.ezv.admin.ch (Circulars, AE data interchange, Order EUR.1 CN)

Additional contacts for businesses

Swiss-Chinese Chamber of Commerce
Höschgasse 89
CH-8008 Zürich
+ 41 44 421 38 88
info@sccc.ch

www.sccc.ch **Switzerland Global Enterprise** Stampfenbachstrasse 85

CH-8021 Zürich

+ 41 44 365 51 51

info@switzerland-ge.com

www.switzerland-ge.com **Schweizerische Exportrisikoversicherung-**

Zeltweg 63

CH-8032 Zürich

+ 41 58 551 55 55

info@serv-ch.com

www.serv-ch.com