SUMMARY

1. Switzerland and Liechtenstein have introduced no major changes to their trade regimes since their last joint TPR in 2008. Their trade regimes remain generally liberal, except in agriculture, which is still highly protected by tariff and non-tariff measures.

2. Switzerland and Liechtenstein are among the wealthiest countries in the world. Their economies have recovered well from the global economic crisis. Thanks to its "debt break" rule and substantial fiscal surpluses accumulated at the federal level prior to the crisis, Switzerland implemented economic stabilization measures in 2009/10, mainly infrastructure spending and labour market measures. Thus, unemployment has been kept in check at about 3-4%. However, a decline in labour productivity in recent years is cause for concern. Liechtenstein's economic performance has been a magnet for foreigners, which represent about two thirds of the Liechtenstein workforce.

3. Trade is an important driving force of the Swiss and Liechtenstein economies, with the GDP shares of trade in goods and services exceeding 100%. Given their degree of dependence on trade, both countries remain exposed to developments in global demand. The main economic challenge for the two economies has been the strong appreciation of the Swiss franc (due to its safe haven status), which has been threatening to undermine competitiveness. In September 2011, the Swiss National Bank decided to contain the appreciation of the Swiss franc by setting a minimum exchange rate of SwF 1.20 per euro and committing to unlimited purchases of foreign currencies, if needed. Liechtenstein uses the Swiss franc as its national currency.

4. Switzerland and Liechtenstein remain high-price "islands" in Europe for a number of reasons, such as the strong Swiss franc and relatively high incomes, but also because of the high level of protection in agriculture, technical barriers to trade, and limited competition in various industries. One of the key policy objectives is improving competition in the domestic market. While a number of initiatives (e.g. Switzerland's adoption of the "Cassis de Dijon principle") were taken during the review period to stimulate competition and counter the high prices, overall more effective steps are needed to address the competitive challenges facing the economies, in particular in agriculture.

5. Switzerland and Liechtenstein remain staunch supporters of the multilateral trading system. Faced with the current impasse of the DDA negotiations and a difficult economic environment, Switzerland and Liechtenstein have extended their network of free-trade agreements to help improve access to foreign markets. This trend makes their trade regimes increasingly complex. Since their last Review, eight new FTAs concluded under EFTA (Switzerland, Liechtenstein, Iceland, and Norway) have entered into force (with Albania; Canada; Colombia; Hong Kong, China; Montenegro; Peru; Serbia; and Ukraine). In addition, a bilateral FTA between Switzerland and Japan entered into force in 2009. Overall, Switzerland has 26 FTAs with 35 trading partners, besides the EU. Switzerland and the EU have deepened their trade relations since, notably in the area of customs procedures and mutual recognition of conformity. Under the 1924 Customs Union Treaty, Switzerland acts on behalf of Liechtenstein in Customs Union matters, such as trade policy measures affecting imports, and agricultural policy. All trade agreements concluded by Switzerland also apply to Liechtenstein.

6. Switzerland's investment regime is generally open to foreigners. However, investment restrictions continue to apply to areas under state monopoly, including certain postal, insurance, and rail transport services. Restrictions in the form of domicile requirements are also applied in certain sectors, including air transport. Switzerland provides a number of tax and non-tax incentives at federal and cantonal level. Most non-tax assistance, including direct payments, is accorded to the agriculture sector.

7. Liechtenstein, too, has a generally open investment regime. Investment restrictions apply in public utilities, as well as to a number of financial services (asset management, investment consulting, and trusteeships). Furthermore, residency requirements apply. Following the Liechtenstein Declaration of 2009, in which the Government expressed its commitment to implement global standards of transparency and exchange of information developed by the OECD, Liechtenstein has taken steps to reform its domestic and international tax policies, including the adoption of a new tax regime in 2011. As a member of the European Economic Area (EEA),

Liechtenstein benefits from the "four freedoms" of circulation (goods, services, capital, and persons) in the markets of the EU, Iceland, and Norway.

8. The structure of the applied MFN tariff of the Switzerland-Liechtenstein Customs Union has changed little since the last TPR. All tariffs remain specific; the corresponding *ad valorem* equivalents range from zero to 1,676%. The simple average MFN rate increased from 8.1% in 2008 to 9.2% in 2012, which reflects in part the appreciation of the Swiss franc. Tariff protection varies substantially across and within sectors, averaging 31.9% for agricultural products and 2.3% for non-agricultural goods (WTO definition), with some international tariff peaks on products such as textiles and clothing. MFN duty-free treatment applies to almost 20% of all tariff lines, mainly agricultural products not produced domestically, fish, petroleum, certain chemicals, base metals, as well as products granted duty-free treatment under the Pharmaceutical Initiative, the Information Technology Agreement, and the Plurilateral Agreement on Trade in Civil Aircraft. Almost 40% of tariff lines carry non-zero rates of less than 2% (nuisance rates).

9. The preferential agreements concluded by Switzerland-Liechtenstein provide for free trade in most non-agricultural products, subject to certificates of origin. For agricultural products, preferential access is provided mainly through bilateral tariff quotas. Least developed countries benefit from substantial and enhanced tariff preferences in the Customs Union: all agricultural and non-agricultural products are entitled to duty-free and quota-free treatment, including rice and sugar. Switzerland's GSP rules of origin were harmonized with the EU's in 2011.

10. Switzerland and Liechtenstein maintain import prohibitions and export controls on certain products for health, safety, security or environmental reasons, and to ensure compliance with international obligations. The automatic and non-automatic licensing procedures remain substantially unchanged. An automatic licence (general import permit) applies to some products covered by compulsory reserve stock schemes (certain fuels and foodstuffs) or import threshold prices. Non-automatic licensing is applied mainly for tariff-quota management purposes. Under a Swiss-EU bilateral agreement in force since 2011, operators from non-EU countries are required to provide a prior notification and go through security-risk analysis. To help ease the burden of security-related customs procedures, Switzerland has introduced an authorized economic operator scheme that is open to accredited operators.

11. Switzerland has taken steps towards reducing technical barriers to trade and enhancing import competition in the domestic market. In 2010, Switzerland unilaterally introduced the "Cassis de Dijon principle" for certain products. Together with the MRA on conformity assessment between Switzerland and the EU, the Cassis de Dijon principle ensures that products that are lawfully marketed in the EU or EEA may, in principle, be put on the market in Switzerland without further checks regarding their technical requirements. Exports from the broader WTO membership to Switzerland may benefit too, provided the products meet EU/EEA technical requirements. However, some of the potential gains from trade are lost because the Cassis de Dijon principle is not applicable to certain products (e.g. animal feed, pharmaceuticals or certain chemicals), and food imports are subject to special approval procedures.

12. As a consequence of Liechtenstein's EEA membership since 1 May 1995, and because of the Customs Union with Switzerland, Liechtenstein has to ensure in its territory the "parallel marketability" of goods under Swiss and EEA rules. To this end, Liechtenstein maintains a Market Control and Surveillance Mechanism, which applies to imports on which customs tariffs (e.g. fish) or non-tariff requirements (e.g. pharmaceuticals, some telecom equipment, salt) differ between the EEA and Switzerland. The mechanism is designed to prevent goods that do not satisfy Swiss import requirements from entering the Swiss market via the open border.

13. No specific trade concerns have been raised in the TBT and SPS Committees since 2008 regarding Switzerland's measures. Liechtenstein applies Switzerland's TBT and SPS measures under the Customs Union Treaty. Approximately 95% of the 23,080 standards currently in force in Switzerland (unchanged since 2008) are aligned with international or European standards. There have been no major changes to the SPS regime, although a reform of the Swiss food safety regime is under way to further align its requirements with the EU's. The moratorium on approvals for the cultivation of bio-technology crops has been extended. The Swiss veterinary and phytosanitary regimes have been fully harmonized with the EU's since the last TPR.

14. Switzerland and Liechtenstein do not have any specific anti-dumping, countervailing or safeguards legislation, and do not apply such measures. They maintain no export taxes, charges or levies. In response to the global economic crisis, Switzerland has introduced new export insurance and guarantee schemes to help improve export competitiveness and ease liquidity problems.

15. The Swiss competition regime remains substantially unchanged. A number of policy recommendations by a task force on competition are under consideration by the Government, aimed at better aligning the Swiss competition framework with international best practices. With regard to state trading, the Swiss Confederation continues to exercise a statutory monopoly over imports of alcohol, though the exclusive import rights have been lifted for bio-ethanol used as fuel. A comprehensive overhaul of the legal and institutional framework governing the alcohol industry is under way, involving the termination of the State's import monopoly. Switzerland and Liechtenstein have their own regimes on government procurement and both countries are signatories of the revised Agreement on Government Procurement.

16. The main development in the area of intellectual property is Switzerland's unilateral decision to introduce the EEA-wide exhaustion principle for patent inventions (products and processes). Accordingly, patent owners cannot prevent the parallel importation of their patented products put on the market of EEA members by themselves or with their consent. Imports of products for which prices are fixed by the State, in Switzerland or abroad, require the patent owners' consent, meaning that national exhaustion continues to apply in this situation. This specifically affects pharmaceutical products.

17. Both Switzerland and Liechtenstein have a strong, export-oriented industrial base. Switzerland has a policy to support research and improve framework conditions for all economic sectors but it does not adhere to a policy of national champions. There are no cash subsidies in place to specific manufacturing industries other than measures open to all companies.

18. The electricity sector is in transition from a monopolistic electricity supply system towards a more competitive regime. Since 2009, large end-users may purchase electricity on the free market. To make competition work, the transmission and distribution networks have been opened for non-discriminatory third-party access. The Swiss gas market has also been partially opened to competition, allowing large customers to make direct imports. The Swiss Government has recently proposed a major change of direction of energy policy (Energy Strategy 2050) with supply security to be achieved without nuclear energy in the medium-term.

19. Switzerland is one the most important financial service centre in the world, attracting large volumes of foreign business. No changes were made to market access conditions during the period under review, except for the signature of four regional trade agreements containing preferential services commitments. However, two main regulatory changes have intervened: the reinforcement of prudential regulations, following the financial crisis and the adoption of the Basel III principles; and a notable change in the international fiscal policy, i.e. the lifting of the Swiss reservation to the OECD model tax convention on income and capital regarding exchange of information on tax matters. Switzerland is now progressively adapting its bilateral network of agreements to this new setting. A preliminary reflection on the ways to increase the transparency of the Over The Counter (OTC) derivative market has also been initiated. Liechtenstein is a much smaller and specialized financial services centre.

20. The telecommunications and the distribution sectors are both devoid of market and national treatment restriction in the GATS sense, but they remain concentrated by their nature and because of the relatively small size of the market. The postal sector has been liberalized in a manner following broadly the EU internal liberalization process. Transport policy is largely tied to the European context in view of Switzerland’s central geographical position and its bilateral agreements on air transport and on land transport with the European Union. Reforms are ongoing to liberalize further the railways sector. Switzerland is pursuing a policy of construction of cross-alpine transit infrastructure and of intermodal transfer between road and rail through a specific tax. Tourism is open but has suffered from the strong Swiss franc and is being promoted at the high end of the spectrum.

21. From a trade policy perspective, agriculture remains the "Achilles heel" of the Swiss and Liechtenstein economies, despite its marginal contribution to GDP and employment. A few tariff

reduction initiatives have been carried out since the last TPR, but overall the high level of import protection in agriculture has been left largely untouched. Meat and dairy products, the backbone of Swiss-Liechtenstein agriculture, are the most tariff-protected products, with averages over 100% and peaks of up to 1,676%. The tariff-quota system remains highly complex with the 28 WTO tariff quotas being divided into 58 sub-quotas and aggregated with 80 bilateral preferential-tariff quotas. The Swiss milk-quota system was abolished in 2009, but surplus problems persist. A surplus removal campaign (compulsory milk levy) has drawn criticism from WTO Members. Export subsidies for basic agricultural products were eliminated in 2009, but remain in place for certain dairy products, flour, and other milled products that are incorporated into food products. These export subsidies partially compensate food manufacturers, for instance Swiss chocolate makers, for the high-tariff handicap of using certain domestic agricultural raw materials.

22. A new Agricultural Policy 2014-17 is currently pending before the Swiss Parliament. The core of the new policy is a re-arrangement and fine-tuning of the direct payments scheme (averaging SwF 50,000 per farmer) to improve its effectiveness and address conflicts with WTO Green Box criteria. While Switzerland's agricultural policy has been heading generally in the right direction, Swiss support and protection for agriculture is still almost three times the OECD average. The process of market-oriented reforms needs to be faster.