SUMMARY

1. The trade regimes of Switzerland and Liechtenstein remain generally open, except in agriculture, which continues to be protected with high import tariffs levied on sensitive products. Switzerland and Liechtenstein continue to be strong supporters of a rules-based multilateral trading system and, during difficult times for the global economy, they advocate further trade liberalization. The last joint TPR of Switzerland and Liechtenstein took place in 2013.

2. The Swiss economy, a well-diversified and advanced economy, has shown resilience against the headwinds from the economic problems in the euro zone and a strong Swiss franc. Despite a difficult environment, the economy continued to grow by 1.5% on average in 2013-15, accompanied by relatively low unemployment (4.5%). The country enjoys good governance with a system of direct democracy that is deeply rooted in Swiss tradition, while the economy is managed with fiscal prudence. The Confederation aims at a balanced budget over the business cycle, which is underpinned by a constitutional fiscal rule ("debt brake"). The public debt, including that from cantons and municipalities, equals roughly 34% of GDP. The main challenges for the Swiss economy revolve around the issues of competitiveness in the face of a strong Swiss franc, high prices prevailing in Switzerland, weak productivity growth, and open issues in Switzerland's relations with the EU.

3. Liechtenstein has a diversified economy, which is based on a comparatively large industrial sector (about 41% of GDP) and the financial services industry (about 25% of GDP). As a consequence of the very small domestic market, Liechtenstein's economy is highly export-oriented. Although affected by a strong Swiss franc, it has retained its competitiveness owing to niche products, and regulatory reforms in the financial services sector.

4. The 1923 Swiss-Liechtenstein Customs Union Treaty created a common regime for goods. Switzerland acts on Liechtenstein's behalf in customs union matters, notably concerning trade policy measures affecting imports and exports of goods, and agriculture. The EFTA Convention regulates the bilateral relationship in services, government procurement, consumer protection, investment, and certain intellectual property rights. As a member of the European Economic Area, Liechtenstein participates in the single market between the EU and EEA/EFTA countries (Iceland, Liechtenstein and Norway), which is designed to provide for the free movement of goods, services, persons, and capital. The trade relations between Switzerland and the European Union are governed by a number of bilateral agreements. Liechtenstein maintains a Market Control and Surveillance Mechanism for the limited instances where Swiss and Liechtenstein/EEA import requirements differ. Switzerland and Liechtenstein share the Swiss franc as a common currency.

5. The period under review was marked by monetary policy developments. In 2011, the debt crisis in the euro zone and uncertainty in world financial markets triggered a flight to safe havens by investors, leading to a strong appreciation of the Swiss franc. On 6 September 2011, the Swiss National Bank (SNB) set a minimum exchange rate of SwF 1.20 per euro. The exchange rate floor was enforced by the SNB through foreign exchange interventions. On 15 January 2015, the SNB abandoned its exchange rate floor policy, while continuing to intervene in the foreign exchange market, as deemed necessary. Since the lifting of the exchange rate floor, the real exchange rate of the Swiss franc, which gives an indication of the price competitiveness of Swiss exporters, has appreciated.

6. After a contraction in the first quarter of 2015 (down 0.4%) due to the impact of currency appreciation, GDP growth resumed and the Swiss economy has posted modest quarterly growth rates since then. The economic expansion in 2014-15 was carried mainly by domestic demand, as very low interest rates have encouraged private consumption and construction. Switzerland has a large services sector (about 74% of GDP), but also possesses a strong, high-tech and export-oriented manufacturing sector (18-19% of GDP). In general, the traditional export industries, such as the machinery industry, have suffered from the strong franc and weak external demand, while more domestically oriented sectors have fared better and benefited from the demand created by population growth (immigration).

7. Switzerland's current account is traditionally in surplus. European countries, and especially euro zone countries, remain Switzerland's most important export and import markets. Some of the main shifts in the direction of trade include a significant increase in exports to the United States and China. The chemical and pharmaceutical industry is Switzerland's largest export industry and

accounted for approximately SwF 85 billion or over 40% of total goods exports in 2015. The industry has been the main driver of Swiss merchandise exports, while exports from the rest of the economy have been declining since 2011 (in volume terms). Liechtenstein normally runs a surplus in direct merchandise trade, which excludes trade with Switzerland.

8. Switzerland remains among the top destinations for foreign direct investment. Most economic sectors are open to investment, including by foreigners. However, investment restrictions continue to apply to activities under state monopoly, including certain rail transport services, some postal services, and certain insurance services. Restrictions (domicile requirements) are also applied to air and maritime transport, hydro- and nuclear power, oil and gas pipelines, and transport of explosive materials.

9. In December 2016, the Swiss Parliament adopted implementing legislation regarding a constitutional amendment triggered by a popular vote on immigration on 9 February 2014. The chosen solution, which aims to be compatible with the agreement with the EU on the free movement of persons, is based on an obligation for employers to notify vacancies to the public employment services (for certain groups of professions and in certain regions where unemployment is above average) and to organize interviews and testing of persons registered with the public employment services in order to give an employment opportunity to locals, but without an obligation to hire them.

10. In Liechtenstein, most sectors are open to national and foreign investment (subject to residency requirements), except for restrictions on: the purchase of real estate; production, trade, and transport of electricity, gas, and water; and on a number of financial services (asset management, investment consulting, and assuming trusteeships).

11. As regards the WTO, Switzerland and Liechtenstein both formally accepted the Trade Facilitation Agreement in September 2015. The tariff reductions resulting from the expansion of the Information Technology Agreement (ITA II) are being implemented on a provisional basis with effect from 1 January 2017. Liechtenstein became the first WTO Member to ratify the revised plurilateral Agreement on Government Procurement in 2013, while Switzerland intends to ratify the revised GPA in parallel with ongoing reforms aimed at harmonizing its procurement regime at the federal and cantonal levels.

12. Since the last review in 2013, Switzerland has submitted well over 100 notifications on a broad range of subjects, notably on TBT and TRIPS matters. Switzerland's notifications frequently include Liechtenstein, although Liechtenstein also provides separate notifications for certain measures. Neither Switzerland nor Liechtenstein was involved in any dispute settlement cases as a complainant or respondent during the period under review.

13. Switzerland's multilateral approach is complemented by an extensive preferential network, led by its bilateral agreements with the EU, and RTAs concluded within the framework of EFTA. As a consequence, the share of Switzerland's imports and exports subject to most favoured nation treatment is low (less than 20%). Since the last review, three new EFTA RTAs have entered into force (Central American States – Panama and Costa Rica; Bosnia and Herzegovina; and the Gulf Cooperation Council). Several EFTA agreements have been signed but are not yet in force (Philippines; Georgia; and the accession of Guatemala to the RTA with the Central American States). Switzerland's RTAs are supplemented by important bilateral FTAs with Japan (2009) and China (in force since 1 July 2014). In addition to the EEA, Liechtenstein participates in RTAs through EFTA. Switzerland's bilateral FTAs with the Faeroe Islands, Japan, and China also apply to Liechtenstein for trade in goods, while other elements (such as trade in services) are not extended to Liechtenstein.

14. Swiss (and Liechtenstein) customs procedures remain substantially unchanged. As a trade facilitation measure in line with the WTO Ministerial Decision of 19 December 2015 on preferential rules of origin for LDCs, Switzerland introduced the "registered exporter system" (REX system) on 1 January 2017. The new self-certification system requires exporters to register with the competent authorities in the exporting country for this purpose. It is expected to reduce the administrative burden related to documentary and procedural requirements for LDC and GSP beneficiaries.

15. All of Switzerland-Liechtenstein's applied tariffs continue to be expressed as specific rates. The average applied MFN tariff was 9.0% in 2016 (based on ad valorem equivalent estimates using 2015 import data), compared with a simple average of 9.2% in 2012. MFN tariffs on agricultural products (WTO definition) averaged 30.8% in 2016, while the average for non-agricultural products was 2.3%. Rates above 100% apply only in agriculture, mainly to vegetables, meat, and dairy products. All tariff lines are bound with the exception of 84 lines covering gas, petroleum, and related products. Switzerland administers a complex tariff quota system with overlapping WTO and preferential tariff quotas, and numerous sub-quotas. Most WTO tariff quotas have been over-filled in recent years.

16. Switzerland maintains compulsory reserve stock requirements on certain products. To finance these stocks, "guarantee fund contributions" are levied on imports of certain foodstuffs and fuels covered by the scheme, as well as on imports and domestic production of fertilizers, natural gas and therapeutic products subject to compulsory reserve stock requirements. Since ODCs are bound at zero and applied tariffs often equal the bound rates, it would appear that the sum of tariff and guarantee fund contributions may exceed Switzerland's bound commitments on several tariff lines at present.

17. Switzerland stands out as a "high-price island" in Europe. Reasons include remaining trade barriers (for instance, tariffs on agricultural products but also some technical barriers to trade), and the higher purchasing power and lower price sensitivity of Swiss consumers. One of the key elements of the Swiss Government's current growth policy is to further open up the economy to imports, with the aim of stimulating price competition and spurring productivity. MFN tariffs on textiles (60 tariff lines) were suspended from 1 January 2016 for a period of four years. Further autonomous trade-liberalizing measures are under consideration.

18. With regard to non-tariff measures, Switzerland has continued to harmonize its technical requirements with those of the EU. In addition, Switzerland applies the "Cassis de Dijon principle" as a trade policy instrument to dismantle technical barriers to imports from the EU and EFTA markets and thereby enhance import competition. However, a number of exceptions diminish its effectiveness. A reform of the Swiss food safety regime is underway that will further align the food safety requirements with the EU acquis communautaire. The new food safety regime entering into force on 1 May 2017 will also bring about a paradigm shift in the Swiss approach to food safety. The positive principle (requiring that all food items for sale must be defined in regulations or approved by the authorities) has been abolished as an unnecessary barrier to trade and, in future, all safe food items will be allowed unless explicitly prohibited. The "precautionary principle" has also been introduced into Swiss food safety legislation. Since the last review, no specific trade concerns have been raised in the TBT or SPS Committees regarding measures maintained by Switzerland or Liechtenstein.

19. Switzerland and Liechtenstein apply a number of prohibitions and restrictions on imports and exports, mainly for reasons of security, health, protection of intellectual property, and protection of the environment, or to ensure compliance with international obligations. Switzerland and Liechtenstein do not have any specific anti-dumping, countervailing or safeguard legislation, and have never applied such measures.

20. There have been no new developments regarding taxes affecting imports. Switzerland and Liechtenstein apply certain indirect taxes that are also levied on imports, notably value added tax (VAT), but also a motor vehicle tax, a consumption tax on mineral oils and fuels, a CO2 tax on fossil fuels, an incentive fee on volatile organic compounds, and taxes on tobacco and alcoholic beverages (beer and spirits). Switzerland administers about 300 federal support programmes (amounting to more than SwF 37 billion in 2015), principally for social security purposes, education, research, transportation, and agriculture. Schemes notified to the WTO's Committee on Subsidies and Countervailing Measures cover support for regional development, SMEs operating in arts and crafts, CO2 refunds, and forestry. Liechtenstein does not provide internal assistance to its industries, except agriculture. Through the EEA Agreement, uniform and common rules govern competition, including the provision of (non-agriculture) state aid.

21. The Swiss competition regime has not changed substantially since 2004. To counter the high prices prevailing in Switzerland, the Competition Commission routinely intervenes to expose and prevent market foreclosures, which have the effect of reducing import competition, and by taking pivotal decisions regarding enforcement actions. Switzerland has regularly notified the activities of

the Swiss Alcohol Board to the Working Party on State Trading Enterprises. According to an amendment of the Alcohol Law, Switzerland is to abolish its statutory import monopoly for (high-grade) ethanol by the end of 2018. A monopoly on salt is held by the cantons.

22. Regarding intellectual property, Switzerland has launched legislative initiatives on copyright, which aim to balance protection and enforcement in the context of new technologies with the privacy and freedom of the internet user. In the area of trademarks and geographical indications, the so-called "Swissness legislation" entered into force on 1 January 2017, which introduces significant changes to improve the protection of the Swiss brand at home and abroad. Two international IP treaties have been submitted to the Swiss Parliament for approval (Marrakesh VIP Treaty, and Beijing Treaty on Audiovisual Performances). As a consequence of the customs union, Liechtenstein's intellectual property system is strongly integrated with the IP system of Switzerland.

23. Regarding developments in the energy sector, the Swiss Parliament adopted new legislation in 2016 (albeit subject to a referendum) that is based on the "Energy 2050 Strategy" and entails, amongst other things, a shift towards increased support for renewable energy (including hydropower) along with the progressive closure of nuclear power plants. Production and distribution of electricity and gas is largely ensured by Swiss public utilities at the cantonal and municipal levels but the sector is open to foreign investment. The full liberalization of the electricity market has been suspended, pending negotiations with the EU on an electricity agreement. Liechtenstein has transposed the first two EU energy packages and is in the process of transposing the third. The electricity and gas markets have been liberalized (except ownership unbundling for electricity).

24. With regard to banking services, a key regulatory development was the adoption of the automatic exchange of information (AEOI) regarding tax matters, in order to combat cross-border tax evasion. Liechtenstein was among the early adopters of the OECD standard, and it put in place the necessary legislation for the AEOI as of 1 January 2016, including an AEOI agreement with the EU effective from that date. Switzerland has adopted the principle of the AEOI through various legal instruments and is to exchange information with the EU and other countries from 2018.

25. Switzerland has strengthened its "too big to fail" regime for banks, which includes higher capital adequacy standards for systemically important banks. Anti-money-laundering legislation has also been reinforced. Consumer protection and supervision has been strengthened for insurance companies. Legislation for the securities and capital markets has been reformed and new rules have been introduced regarding central counterparties, trade repositories, and cross-border participation in Swiss trading venues. A reform of the Swiss pension fund regime is underway. Liechtenstein has continued to transpose financial and anti-money-laundering EU legislation via EEA mechanisms, and unilaterally in the case of the first legislative package on the financial supervisory bodies. The regime of collective investment schemes/investment undertakings has been extensively revised with the creation of new categories.

26. In the area of air transport services, Switzerland has pursued its liberal air policy with the signature or modification of a series of "more than open skies" agreements with numerous countries. The Swiss postal services reform, launched in 2010, has been fully implemented and the state-owned Swiss Post has been corporatized. There is competition outside the reserved areas. There have been no major changes in the telecoms regimes of Switzerland and Liechtenstein.

27. With respect to professional services, market access to architectural and construction services is lightly regulated in Switzerland. Only six cantons regulate architectural services and only one canton regulates construction services. Foreign qualifications may be recognized, including through an accelerated procedure for EU/EFTA citizens. Medical and hospital services are subject to a non-discriminatory economic needs test to ensure universal services at the lowest cost for the Swiss social security system. Some cantons have waived these limitations for medical services. Social services, such as retirement homes, are open to foreign investment.

28. Since the last review, Switzerland has implemented the Agricultural Policy 2014-17. The new agricultural policy framework involves mainly a rearrangement and fine-tuning of the Swiss direct payments system to improve its efficiency and effectiveness, to reallocate some subsidies from livestock and milk production to the arable sector and marginal areas, and to address conflicts with WTO Green Box criteria. Switzerland provided around SwF 95 million in 2016 for export subsidies

on processed agricultural products in order to compensate the domestic food industry for the price handicap of using tariff protected locally produced agricultural raw materials. Meanwhile, the Swiss Government has initiated domestic procedures to eliminate such export subsidies by January 2019, in line with commitments made at the WTO Ministerial Conference in Nairobi. Despite these steps, agriculture (together with some domestic services) remains vulnerable to a more competitive environment – highlighting the need for more market-oriented reforms.