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Switzerland Tax Alert **June 2013**

Switzerland Tax Alert

Sino-Swiss Free Trade Agreement



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Dear Sir or Madam,

We would like to share the latest developments in regard to the **Sino-Swiss Free Trade Agreement ("FTA")** with you.

- On May 24, 2013 China and Switzerland signed a memorandum of understanding ("MOU") on concluding negotiations for a bilateral free trade agreement.
- China and Switzerland are agreeing on details of the FTA and the finalized FTA is expected to be published in a few weeks (likely in July 2013). Switzerland will be the first continental European country to sign an FTA with China.
- The Sino-Swiss FTA aims to promote trade between the two countries. It is expected that Chinese importers will obtain a preferential treatment on imported goods that are originating from Switzerland. The detailed tariff reduction schedule has not been announced yet.
- According to the latest news, under this agreement Switzerland will offer zero tariffs on 99.7% of goods imported from China, while China will allow for 84% of Swiss exports to be duty-free. All industrial goods, including textiles, clothes, metal products, auto parts and components sold from China to Switzerland will enjoy zero tariffs. More than 960 types of Chinese agricultural products will be on the list of duty exempt items. For watches in particular, it was reported that in the first year import duties on Swiss watches could be reduced by 18% and then by around 5% annually in the following years. Hence, it is expected the duty on watches will be cut by 60% in 10 years.
- However, in order to benefit from preferential import duty rates under the FTA several requirements will have to be met. In our experience in applying other FTAs, typically the following should be taken into consideration:
 - > Rules of Origin – As a precondition for the duty benefit in China the imported goods have to be originated from Switzerland, which is determined based on several detailed rules set out in the FTA and a Certificate of Origin is required upon importation.

> Direct consignment – Commonly there will be a direct consignment requirement under FTAs, which means goods should be shipped from one FTA signatory to another without going through an intermediary country unless the transit entry is justified for geographical reasons (in these exceptional situations, supporting documents should be provided to demonstrate that the products are under Customs' supervision without entering into trade or consumption).

> Third party invoicing – Some FTAs do not provide clarification on the treatment on third party invoices, i.e. whether an invoice issued from an intermediary country (for example Hong Kong) could be acceptable in order for the importation to enjoy the preferential duty rate provided that the origin rules and direct consignment requirements are satisfied.

In light of the above, when the detailed rules for the Sino-Swiss FTA are published, companies involved in Sino-Swiss trading activities are advised to review their current supply chain to assess their eligibility to the potential duty saving opportunities.

We are closely monitoring the Sino-Swiss FTA and will update you as further information become available. Please do not hesitate to contact us in case you have any questions.

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