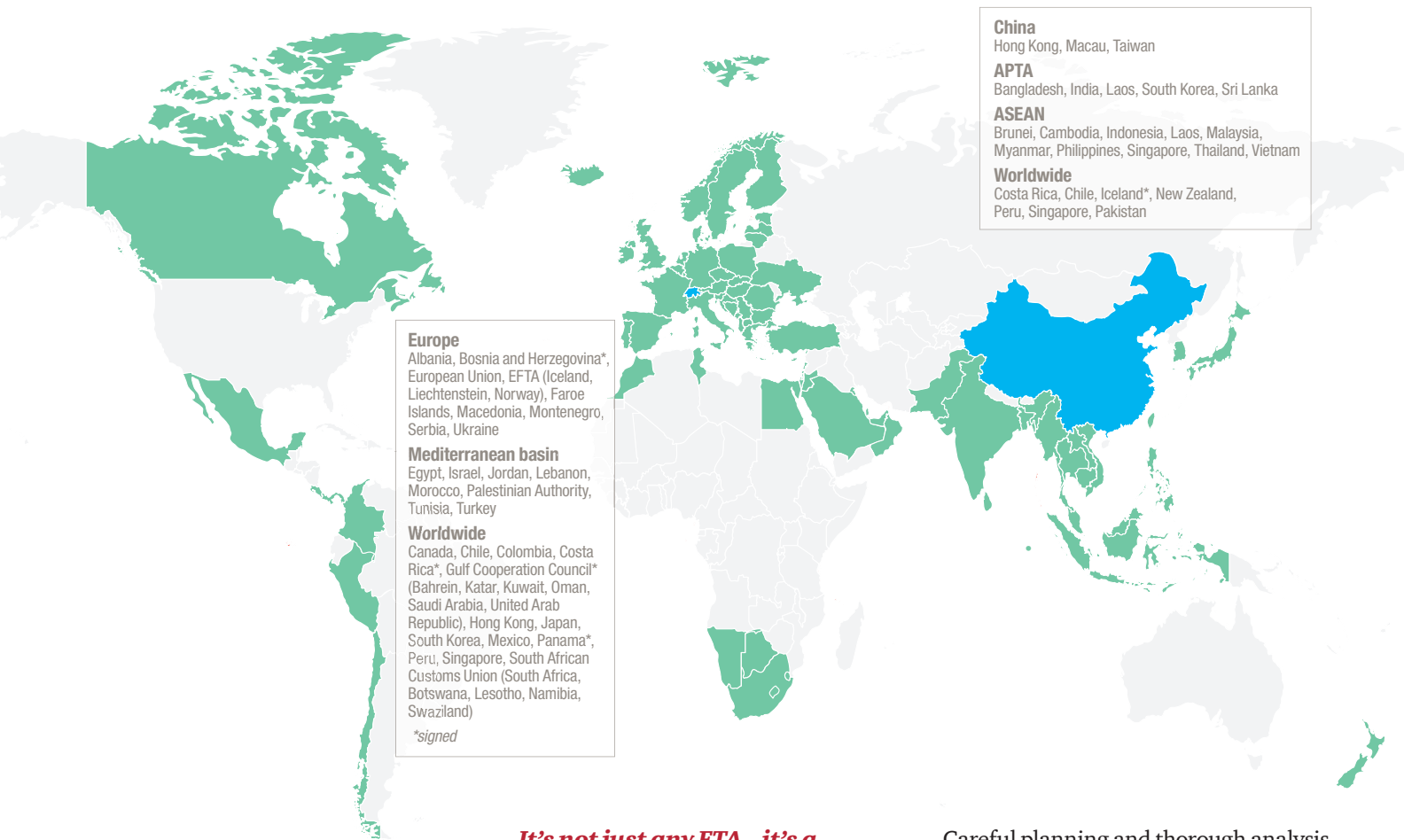


China-Switzerland FTA Recasts Inter- national Trade

Enhancing market access
while maintaining compliance



Introduction



It's not just any FTA – it's a gateway

The new China-Switzerland free trade agreement (FTA) provides for considerable customs duty optimisation and related savings potential for Chinese and Swiss manufacturers as well as their customers involved in bilateral trade.

By rightsourcing your value chain, the China-Switzerland FTA further unlocks ample opportunities for trilateral trade. It widens your market access to China and Switzerland and their respective FTA networks. The trilateral FTA networks are marked in green on the world map above. How many of these are target or still untapped markets for you? Thanks to the FTA, they are now potentially within reach for your business.

Careful planning and thorough analysis is required when considering and implementing business and value chain transformations. This can unlock the full potential of the China-Switzerland FTA for your business, but every facet of your organisation and multiple regulatory issues are involved. As a rule, though, the effort is worth it!

It further underscores the importance of selecting the 'right' location for each element in the value chain, including your global and regional headquarters in Europe and Asia.

All in all the FTA recasts the international trade landscape by establishing a free trade gateway for crossborder trade. Are you ready for it?

Benefits of the FTA

The FTA was signed in Beijing on 6 July 2013 and represents the first FTA between China and any country in continental Europe. It is a landmark agreement that will boost international trade and may even contribute to a re-industrialisation of Switzerland.

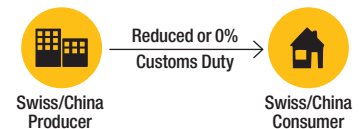
Bilateral Trade

The FTA reduces or eliminates duties in the trade between the two countries.

For the precise wording and details of the FTA agreement, please click on the following link: www.pwccustoms.com

Goods fully obtained or processed in one of these countries may benefit from this duty relief. On “day one” certain products will enjoy a 0% duty rate whilst for others phased tariff reductions will take place over several years (mainly on products imported to China). The products must have origin in one of the contracting countries in order to benefit from the preferential duty rates. For example, and depending on the specific product, Swiss and Chinese producers will need to ensure up to 70% local content and/or that a particular manufacturing process has taken place.

Figure 1: Routine Bilateral Trade



Benefits of the FTA

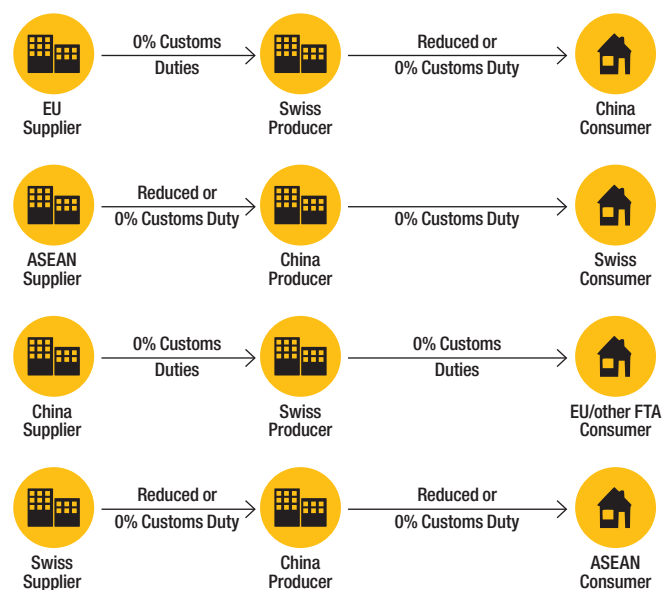
Business model planning is crucial when seeking lower customs duties and improved market access as afforded under the China-Switzerland FTA. Selected business models and some related considerations are set out below.

Trilateral Trade “Gateway”

The FTA reduces or eliminates duties in the trade between the two countries.

Supplying goods directly to a country without an FTA being in place may lead to substantial duties, which increase the costs of landed goods and have an impact on your margin.

Figure 2: Expanded Trilateral Trade



Changing your value chain (e.g. sourcing or manufacturing) in order to meet the sufficient processing rules set out in the applicable FTA of the gateway country, as well as conferring origin of the latter, may lead to significant duty savings.

Achieving “substantial transformation” at the appropriate point in the value chain is required in order to enjoy benefits under the China-Switzerland FTA and manage tax risks. Certain value chains are likely to include suppliers from outside China/Switzerland with final qualifying processing taking place

inside China/Switzerland. Upfront planning, establishing sensitivity thresholds to allow for variances in cost, and tracking during production is important so as to ensure that the FTA benefits are managed and sustainable also from a tax and operational standpoint. Aligning the new FTA to an existing value chain that may involve a Swiss Principal structure is also a consideration in effort to ensure overall tax efficiency in the current business model or in relation to future business strategies.

Benefits of the FTA

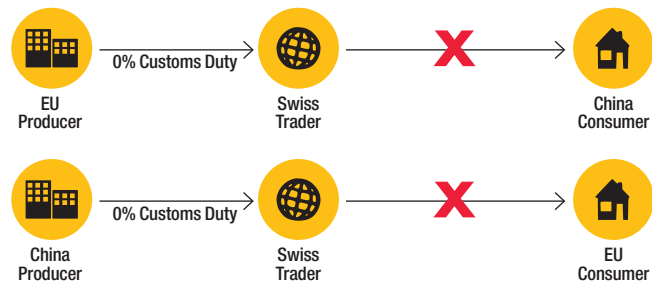
The FTA provides a landmark competitive edge for both countries and their respective international trading activities, but legitimate trade is paramount to ensure that benefits are rightfully applied.

Illegitimate Trade

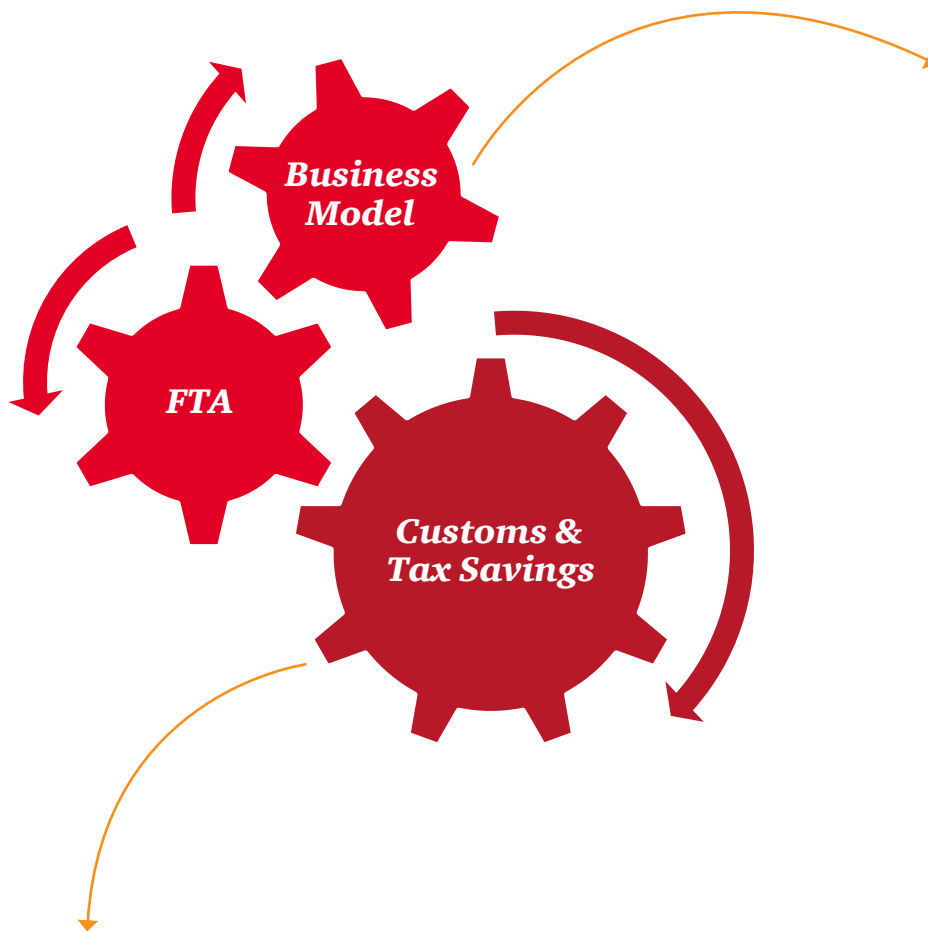
Simple trading of products through a Swiss middleman is insufficient to attain preferential origin, yet the characteristics of the respective countries and the geographic proximity of nearby consumer markets may trigger a rise in illegitimate “free trade” under the auspices of the China-Switzerland FTA. Expect the authorities to be vigilant in ensuring that inappropriate “free trade” is not taking place, this by their exercising closer scrutiny at various points in the supply chain. The authorities may also exchange information across international borders as they seek to combat any unjustified claims.

		Example 1	Example 2	Example 3
Bilateral Trade with no FTA in place X → Z	Country of Origin (X)	China	Switzerland	China
	Destination Country (Z)	European Union	ASEAN (e.g. Thailand)	European Union
	Goods	Footwear (HS Chapter 64)	Medicaments (HS Heading 3004)	Ball or roller bearings (HS Heading 8482)
	Import duties (no FTA)	Up to 17%	Up to 10%	Up to 8%
Value Chain Transformation				
Trilateral trade using gateway country (provided Rules of Origin are met) X → Y → Z	Sufficient processing in gateway country (Y)	Switzerland	China	Switzerland
	Import duties (supplies, China-Switzerland FTA)	Likely 0%		
	Import duties (finished product, applicable FTA)	0%	0%	0%

Figure 3: Managing Circumvention



Your Added Value from Transforming Your Business



In order to increase the benefits from the FTA, your business model may need to be adapted and aligned with the tax model. This means that presence in existing markets may need to be intensified or significantly built up. New markets may potentially open up and be within reach. Business partners have to be selected, as well as the production and goods flow in order to benefit from the geographic location, competencies, regulatory environment and other aspects. Then the new current business model must be transformed to achieve the desired results. Resources need to be re-prioritised and allocated on the basis of the new business model. HC resources must also be selected and/or added in order to leverage the opportunities to the greatest possible extent.

Customs

The FTA reduces or abolishes duties on trade between China and Switzerland. The current and future trade should be analysed as to how it can benefit from the respective provisions. Generally, the goods need to obtain origin in one of the countries due to sufficient processing rules and for fulfilment of the formal requirements governing preferential duty rates.

Taxes

Using a tax-optimised business model for your gateway company, one which fully takes into account your entire value chain, may allow you to build an operationally robust business set-up that simultaneously allows you to manage your tax burden properly and in a sustainable manner.

Creating a win-win for your business and market

Ensuring Regulatory Compliance while Exploring Opportunities

How we can help

We will be glad to support you on all matters related to the FTA, the rules of origin, helping you to reduce costs, mitigate risks and ensure compliance with the origin and trade rules, as well as harness any potential for optimisation.

The following table on the right is an overview of our services, each of which can be tailored to your specific needs.

OriginCompliance™ is a customisable program using leading-edge technologies to automate the origin calculation process, better manage the collection of supplier information, and provide client users with production and procurement planning capabilities. *OriginCompliance™* provides a standardised and simplified origin process that automates origin calculations as applied under the China-Switzerland FTA and offers a web-based means to collect and maintain supplier information for routine bilateral and planned trilateral trade.

Topic	Your Value	Our Support
Value chain planning Planning of new and changes to existing value chains to take into account influencing factors and benefits from different areas.	A holistic approach helps to ensure that the ultimate implementation reaps the most benefit from the relevant areas.	Support in the planning and transformation phase with a broad focus on different fields of law and geographic regions.
Organisation/customs team An adequate customs and trade organisation to maintain proper handling and to benefit from the FTA.	Internal know-how and support to ensure compliance with changing regulations and unlock planning potential.	Support in building up a global or local customs and trade organisation and maintaining the relevant collaboration.
Evaluating the origin of goods Assessing the origin applicable to individual products, adapting to changes in the origin rules and the evolving value chain.	Benefitting from preferential duty rates provided in the FTA to lower the landed costs of goods in your value chain.	Training with regard to the origin requirements and rules as well as the origin calculation and review of the internal FTA approaches.
Legitimate trade The respective enforcement authorities in Switzerland and China are expected to be active in ensuring that only legitimate trade receives a Certificate of Origin and benefits from lower customs duties.	Automated control over customs duty procedures and processes adds benefit and reduces the demand on internal (IT) resources.	Implementation of SAP based Global Trade Solution and PwC's <i>OriginCompliance™</i> .

1. The origin qualification module	2. The supplier collaboration module
Routinely analyses large quantities of bills of materials and other production data at factory level to assess whether the product qualifies under the applicable FTA. The results are communicated for review and acceptance via online secure access to <i>OriginCompliance™</i> and via file transfer.	Online portal to provide web-based means to allow suppliers to upload the requested, origin certification data (and associated documents), with built-in online tools to manage workflows and e-suppliers, track supplier compliance history, and efficiently administer the solicitation process.

Next Steps

During a first face-to-face meeting, we have the opportunity to discuss the FTA, the origin requirements and value chain transformation solutions in more detail. Business restructurings are complex processes as every facet of the organisation is involved, and the implications - operational, tax and legal - are broad in scope. Implementing an effective value chain management process that brings all these facets together is paramount. Our team can work with you in the following ways:

- Assess your value chain management process and find ways to maximise supply chain efficiency
- Create an operational structure that aligns your organisation's unique elements
- Align your operational, tax and legal structures to achieve sustainable financial and operational benefits during business transformation

For further information on mastering the China-Switzerland FTA, please contact

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