SWITZERLAND

In 1996, the U.S. trade surplus with Switzerland was $578 million, a shift of more than $1.9 billion from the U.S. trade deficit of nearly $1.4 billion in 1995. U.S. merchandise exports to Switzerland were nearly $8.4 billion, an increase of more than $2.1 billion (34.1 percent) from the level of U.S. exports to Switzerland in 1995. Switzerland was the United States' eighteenth largest export market in 1996. U.S. imports from Switzerland were nearly $7.8 billion in 1996, an increase of $197 million (2.6 percent) from the level of imports in 1995.

The stock of U.S. foreign direct investment (FDI) in Switzerland in 1995 was more than $36.3 billion, an increase of 5.8 percent from the level of U.S. FDI in 1994. U.S. FDI in Switzerland is concentrated largely in the financial, wholesale, and manufacturing sectors.

Since the rejection of the European Economic Area (EEA) Treaty by the Swiss electorate at the end of 1992, the Swiss Government has sought to reduce potential discrimination against Swiss products by European Union (EU) countries through bilateral sectoral negotiations with the EU. These negotiations are continuing in 1997 with signs that an agreement will be reached. The EU insists upon a package agreement involving all seven negotiating groups, although Switzerland has remaining concerns about EU proposals in at least two of the groups. Any eventual deal with the EU is likely to cause collateral damage to U.S. interests in some of the areas under negotiation. This phenomenon has already been seen in cases where Switzerland adopts EU standards and regulations.

IMPORT POLICIES

According to the Organization for Economic Cooperation and Development (OECD), Swiss farmers are one of the most highly protected producer groups in the world. Switzerland is self-sufficient in pork, dairy, and other agricultural commodities but imports approximately $6 billion in food annually, accounting for 40 percent of total food consumption. The U.S. share of the agricultural import market remains frozen at less than 5 percent. This extremely low share contrasts sharply with U.S. agricultural export performance in similar international markets and with the relatively unfettered access to the U.S. market that Swiss food exporters enjoy. Switzerland has begun to liberalize some of its restrictive import policies in response to obligations it undertook in the Uruguay Round. The full benefits of these reforms have not yet been realized. Switzerland has encountered difficulties in implementing a new import licensing system for wine, and it is unclear at this point whether the methods of implementation chosen for certain other products are fully in conformity with Switzerland's World Trade Organization (WTO) obligations.

U.S. exporters of food products are disadvantaged for a number of reasons. The most important of these are the following.

- *Preferential tariff rates for other countries*: Some agricultural imports from EU countries enter at preferential tariff rates, giving European products a clear advantage over American ones. It is not at all clear that these special tariffs conform to WTO requirements, since numerous agricultural products are excluded from the arrangements.

- *Lack of effective competition*: Two food retail "giants" control over two-thirds of chain store sales, and they manufacture their own consumer-ready products. They are reluctant to import prepackaged products that compete with their own brands.

- *Restrictive government policies*: The Swiss customs practice of charging tariffs on the gross weight of imports discourages imports (in favor of local processing) by greatly inflating tariffs on prepackaged food products (since the weight of the package is included in the tariff).

STANDARDS, TESTING, LABELING, AND CERTIFICATION

Swiss technical standards and testing requirements for such key products as automobiles have long been an expensive and difficult hurdle for foreign suppliers. In 1995, Switzerland adopted automobile standards modeled after those of the EU. As a result, cars made in the EU can now enter the Swiss market without additional testing. This development puts U.S. manufacturers at a competitive disadvantage. Initial discussions with the Swiss Government on this problem were positive, and some important barriers to U.S. automobile imports have been removed. Further talks are planned on vans and light trucks, where no relief has been provided yet.

A new problem arose in 1996 regarding genetically modified soybeans and products containing soybean derivatives. The government announced in December that these products could be imported, but at the same time imposed onerous labeling requirements. There are no health or safety reasons for the labeling requirements. Furthermore, Switzerland does not require similar labeling for other genetically modified products, including feedgrains The result is to create barriers to exports of U.S. soybeans and soybean products. Labeling requirements have also been applied recently in ways which appear to discriminate against foreign suppliers.

Swiss implementation of regulations for many agricultural products is leading to some of the same problems in Switzerland that U.S. exporters face in the EU. Switzerland plans to implement proposed pet food regulations on April 1, 1997, which mirror EU regulations. These proposed regulations could cut off U.S. exports of $20 million if an agreement on equivalency cannot be reached.

Restrictions on food additives also discourage prepackaged food imports from the United States. Switzerland prohibits, without any health or safety basis, many food additives which are commonly used both in the United States and the EU. Labeling requirements have also been applied recently in ways which appear to discriminate against foreign suppliers and suppliers of innovative products.

LACK OF INTELLECTUAL PROPERTY PROTECTION

Switzerland has one of the strongest regimes in the world for the protection of intellectual property rights and has shown a willingness to enforce its laws effectively. A new copyright law entered into force in 1993, providing for stiffer penalties for the illegal copying and distribution of video cassettes. While some illegal importation and copying may still occur, video piracy appears to have been driven entirely underground and does not have a significant market impact. Software piracy was a problem in the early 1990s, but a large and well publicized corporate raid in 1993 appears to have made a significant dent in corporate copying. In the last two years, however, piracy levels seem to have increased again. The Business Software Alliance estimated that software piracy caused losses to its companies of SFR 84 million in 1996. This represents a significant share of the Swiss software market.

A minor problem also remains with cable retransmission. While Swiss copyright law provides for a cable retransmission right, claims by foreign producers can only be made through a local collection society.

Finally, theft of pay-television, premium channels, and other satellite signals using decoding devices has become a widespread problem. The government has recognized this problem and proposed remedial legislation.

SERVICES BARRIERS

U.S. airlines are prohibited from providing ground handling services to third-country airlines at Zurich airport, and Swiss authorities have shown no willingness to eliminate this barrier. A new problem in transportation services arose late in 1996 when the Swiss railways signed an exclusive arrangement with a Swiss firm (wholly owned by Swissair) to provide computerized reservation system (CRS) services to the railway. This exclusive arrangement will effectively prevent other firms from active participation in CRS business in Switzerland because travel agents will no longer be able to sell rail tickets using other available CRS services. The United States has approached the Swiss Government on this problem and is awaiting a response.

Telecommunications and information services have been dominated by the Swiss Post, Telephone and Telegram Administration's statutory monopoly over most of the telecommunications market. In December 1996, the lower house of Parliament approved a reform package which is similar to current EU initiatives. If approved in its current form by the upper house, the legislation will end much of the PTT monopoly. It is not clear, however, whether this legislation will be implemented in a way that gives private firms equal access and opportunity in the Swiss telecom market. Subsequently, in the recently concluded WTO negotiations on basic telecommunications services, Switzerland made commitments on all basic telecom services, subject to legislative approval. It adopted the reference paper on regulatory commitments.

ANTICOMPETITIVE PRACTICES

Traditionally, there has been a very high degree of cartellization in the Swiss economy. A new law that came into force at the beginning of July 1996, still permits cartels, but requires companies in the cartel to justify their actions under restrictive economic requirements. The existence of cartels has disadvantaged U.S. exports to Switzerland. The Swiss food industry, for example, is controlled by cartels of producers, wholesalers, processors, and retailers. These organizations have succeeded in maintaining non-tariff barriers, such as import calendars, which are designed to favor domestic production.

Switzerland