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Aussenwirtschaft

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Suggested Citation: Zimmermann, Thomas A. (2023) : A case of unilateral trade liberalization: The autonomous abolition of industrial tariffs by Switzerland in 2024, Aussenwirtschaft, ISSN 0004-8216, Universität St.Gallen, Schweizerisches Institut für Aussenwirtschaft und Angewandte Wirtschaftsforschung (SIAW-HSG), St.Gallen, Vol. 73, Iss. 1, pp. 113-169

This Version is available at:

<https://hdl.handle.net/10419/290129>

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A case of unilateral trade liberalization: The autonomous abolition of industrial tariffs by Switzerland in 2024

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On 1 January 2024, Switzerland will implement a major trade policy reform by autonomously eliminating all tariffs on imports of industrial products regardless of their origin. After a brief review of the literature on unilateral trade liberalization and the current Swiss tariff landscape, this paper presents the motivation and the substance of the reform. The elimination of industrial tariffs will reduce the net fiscal burden on imports by around CHF 600 million per year. In addition, imports will be easier to administer, as the Swiss customs tariff will be simplified (thanks to a reduction in tariff numbers) and proofs of origin will no longer be required for goods that remain in Switzerland. We summarize the main findings of studies carried out in the run-up to the reform. The political process and debates leading up to parliamentary approval of the reform, its reception in international fora and the ongoing work on implementation are presented as well. I conclude that the difficult process of obtaining parliamentary approval confirms the insights from the political economy literature that unilateral trade liberalization is politically difficult to achieve in a purely domestic context, despite the economic benefits it brings. From an economic perspective, the contribution of unilateral liberalization to domestic market opening is substantial and has certain advantages, also in comparison to other trade policy instruments such as free trade agreements (FTAs). Unilateral liberalization and preferential liberalization through FTAs need not be mutually exclusive but can be seen as complementary trade policy tools.

Key words: free trade, tariffs, unilateral liberalization, autonomous trade policy

JEL codes: F13

1 Introduction

On 1 January 2024, Switzerland will autonomously abolish all its tariffs on imports of industrial products, regardless of their country of origin. This unilateral measure will reduce the net fiscal burden on the economy, including businesses and consumers, by around CHF 600 million per year and will allow for administrative facilitations. As a result, the annual tariff revenue of the Confederation will fall, reducing its share in total central government revenue by around half from an already low 1.61% in 2022 to just 0.82% in 2024. At the same time, Switzerland's General Tariff for industrial goods will be simplified, with the number of tariff positions falling from 9,114 to 7,511.

¹ In his role at SECO, the author has accompanied the parliamentary approval and implementation processes for the autonomous abolition of industrial tariffs since taking office on 1 September 2020. The views expressed in this article are the author's own and shall not be attributed to any of the institutions with which he is affiliated. The author thanks Rocío Almagro Montero, Peter Fleer, Michèle Glauser, Martin Hengärtner, Matthias Howald, Gabriel Spaeti, Tareka Wenger-Peterson and Alexander Zimmermann Almagro for valuable support. All errors are those of the author.

This article provides an overview of the project and its context. I begin with a brief overview of unilateral and other (reciprocal) forms of trade liberalization, their reception in the literature and their applicability to the Swiss case (Section 2). I then briefly describe the past and current tariff situation in Switzerland (Section 3) before tracing the path that led to the Federal Council's decision to unilaterally abolish tariffs in Switzerland (Section 4). Section 5 details the substance of the reform, while Section 6 outlines its expected effects. Section 7 gives an account of the domestic political approval process, while Section 8 summarizes the international reception of the reform. Section 9 looks at the work on implementation and Section 10 concludes.

2 Reciprocal versus unilateral trade liberalization

2.1 Theory and literature

A major discrepancy between economic theory and real-world economic policy can be found in the area of trade. On the one hand, most economists agree on the economic superiority of free trade policies over protectionism. If this view were to prevail also in trade policy practice, most countries would adopt a free trade policy and simply dismantle trade barriers unilaterally. As a result, there would be no need for reciprocity to achieve open markets. However, the reality of economic policy-making is fundamentally different: in the real world, trade barriers abound. And when it comes to removing them, many, if not most, policy-makers and trade negotiators are imbued with the concept of reciprocity. Under reciprocity, countries liberalize their import regimes only after tough and often lengthy negotiations. Any move to liberalize one's own market is seen as a concession that can only be made in exchange for reciprocal concessions from other countries. Because of the prominent role of reciprocity in trade policy thinking, far more attention and resources are devoted to reciprocity-based trade negotiations than to the possibilities of unilateral (or autonomous) trade liberalization, despite the economic benefits that the latter may bring.

Broadly speaking, reciprocity-based negotiations can take place at the multilateral level of the GATT/WTO, at the regional level or at the bilateral level. At the multilateral level, any trade liberalization agreed is usually applied on an *erga omnes* basis in accordance with the most-favored nation (MFN) principle.²

² Multilateral trade negotiations take place within the World Trade Organization (WTO), which currently has 164 members. They are based on reciprocity (see Art. XXVIII bis GATT), although there are lower requirements when negotiating with developing countries (see Art. XXXVI.8 GATT, including the interpretative note). Concessions are usually granted on an MFN basis, i.e., they apply to all WTO members. On the design of the WTO, see for example BAGWELL and STAIGER (2010). On reciprocity in the early days of the GATT, see ENDERS (2003). For simplicity, we do not discuss plurilateral agreements here.

By contrast, trade liberalization agreed in the context of regional or bilateral agreements – such as free trade agreements (FTAs) or customs unions (CUs) based on Art XXIV:5-10 GATT – normally only results in trade preferences that apply to the other parties to the same agreement.

As a result, such trade preferences discriminate between outsiders and insiders. They constitute an exception to the MFN principle of the WTO, which is laid down in Art. I GATT for trade in goods. From an economic welfare perspective, trade liberalization under MFN conditions is generally preferable to the discriminatory granting of trade preferences under FTAs. As VINER already noted in 1950 in his famous book on *The Customs Union Issue*, preferential agreements not only lead to welfare-increasing trade creation, but also to welfare-decreasing trade diversion. The latter occurs when import demand is diverted from more efficient countries of supply to less efficient countries of supply, whose only advantage is the “artificially” created trade preference under the FTA or CU. These trade diversion effects are often reinforced by restrictive rules of origin. By contrast, MFN-based liberalization – whether agreed in the multilateral, reciprocal context of the WTO or granted unilaterally as a result of autonomous trade liberalization – only leads to welfare-increasing trade creation.

Returning to the question of reciprocal versus non-reciprocal liberalization, several reasons may explain the preference of policy-makers for reciprocity-based negotiations over unilateral liberalization. Apart from a possible mercantilist mindset, the more economic arguments include considerations related to terms of trade, safeguarding employment and the balance of payments, the value of retained trade concessions as bargaining chips in future negotiations, or political economy considerations.

However, as ROESSLER already pointed out in 1978, most of the arguments in favor of reciprocity requirements are not convincing from an economic point of view. The terms of trade argument (which is conceivable for large countries with monopsonistic or monopolistic power) has hardly played a role in reality and is, by its very nature, not an argument that smaller countries would have to consider. As for the employment argument and the balance of payments argument in favor of reciprocity, both have lost their relevance in the presence of flexible exchange rates, since any disequilibria that might result from unilateral liberalization in the labor market or in the balance of payments could be absorbed by a depreciation of the exchange rate. Another often-heard argument for demanding reciprocity – the value of maintaining trade barriers as a bargaining chip for future negotiations – is also questionable. This is particularly true as there is a time element that may reduce the present value of a future trade deal to the point where it is worth less than the economic benefits that would have resulted from immediate unilateral

liberalization. As ROESSLER concludes, reciprocity is primarily a domestic policy tool to reduce the domestic political costs of trade liberalization and thereby make it politically feasible at home.

Indeed, reciprocity appears to be particularly relevant from a political economy perspective. It is an important domestic policy tool for overcoming political opposition to economically desirable trade liberalization and for mobilizing export-oriented interests to tilt the domestic political balance in favor of liberal trade policies. It also helps policy-makers to show that they are getting something in return for the perceived “gift” to foreign countries that is often mistakenly seen in tariff reductions. While the focus on reciprocity in the real world is likely to be driven primarily by these political considerations, there is also an economic argument that individual (especially small) countries can, however, only influence to a limited extent: if reciprocity leads to greater global liberalization, even if only sequentially, the economic gains from trade will be greater than if one country “goes it alone”.³

As a consequence of the general focus on reciprocity-based negotiations in trade policy discussions, the opportunities of unilateral trade liberalization are often overlooked, including in the academic literature (VÉZINA, 2010, p. 3). Nevertheless, there are strong arguments in favor of unilateral liberalization⁴ and they have a long history, starting with the famous repeal of the Corn Laws by England in 1846 (BHAGWATI, 2003a, p. 3).⁵ More recently, many countries – especially developing countries – have undertaken unilateral liberalization initiatives. LAWRENCE (2021) recently referred to this as an “unappreciated trend towards unilateral trade liberalization”.⁶ BALDWIN (2012) has explained this trend towards unilateral liberalization with the communication technology revolution that has shifted the political-economy equilibrium against protectionism in favor of joining international supply chains, which entails tariff liberalization.⁷ Other reasons for unilateral trade liberalization discussed in the academic literature include the wish

3 See BHAGWATI (2003a, pp. 5ff) and, in more detail, CONYBEARE (2003).

4 For a brief overview, see BOURDREAUX (2020). BHAGWATI (2002) provides a detailed study of cases of unilateral liberalization.

5 For an insightful account of the history of the debate between “reciprocitarians” and unilateral free traders, see BHAGWATI and IRWIN (1987).

6 In a similar vein, MARTIN and NG (2007), in a survey of sources on tariff reductions in developing countries between 1983 and 2003, found that autonomous liberalization decisions, participation in World Bank/IMF adjustment programs or liberalization associated with WTO accession accounted for 66% of the observed tariff reduction, while the Uruguay Round contributed 24.7% and liberalization under regional trade agreements contributed just under 10%.

7 For a more detailed analysis, see BALDWIN (2010).

to attract foreign direct investment (FDI),⁸ ideological orientations,⁹ trade policy leadership (COATES and LUDEMA, 2001), cross-reciprocity,¹⁰ or the possibility of reducing welfare-destroying trade diversion from earlier preferential trade liberalization (ESTEVADEORDAL et al., 2008, p. 1568).¹¹

Although most of the literature and published case studies focus on the experience of unilateral liberalization in developing countries,¹² there are also a few examples of (mostly small or medium-sized) industrialized countries that have unilaterally freed trade from tariffs to varying degrees. These include Australia, Canada, Hong Kong, Iceland, New Zealand, Norway and Singapore. An analysis by MAHLSTEIN et al. (2017) presents the experiences of Canada, New Zealand and Norway. While the unilateral liberalization projects of these countries differed in terms of the periods of liberalization, the approaches chosen, the extent of liberalization, the objectives and the starting points, the authors found for all three countries “significant positive economic effects, thus confirming current economic theory” (p. 4).¹³

2.2 Is Switzerland a candidate for unilateral liberalisation?

From the literature discussed above, we can draw some preliminary conclusions about the conditions under which unilateral liberalization can be considered as a trade policy option for a country:

- Limited market weight and, consequently, limited ability to extract trade concessions in reciprocity-based negotiations

8 See VÉZINA (2010), who studied this phenomenon for East Asian countries that unilaterally and competitively lowered their tariffs to attract manufacturing-oriented FDI from Japan.

9 See the case study of trade liberalization in Chile by EDWARDS and LEDERMAN (1998), who also analyze the role of ideas (see in particular pp. 14ff.).

10 Cross-reciprocity can be understood as unilateral liberalisation triggered by other incentives, such as financial assistance (e.g., from the IMF or the World Bank), which helps to offset the political or economic costs of liberalization (McCULLOCH, 2003).

11 The authors note that “(b)ecause the multilateral system has not enforced much tariff reduction on developing countries, tariffs are relatively high there, creating a large potential for trade diversion. Lower external tariffs moderate that loss. Our results suggest that this force is important in explaining changes in MFN tariffs of Latin American countries involved in free trade areas.”

12 See BHAGWATI (2003), including PANAGARYIA (2003) for Asia, McCULLOCH (2003) for Latin America and MESSERLIN (2003) for Eastern Europe.

13 The authors found significant positive effects on export growth in New Zealand and Canada, but an insignificant positive effect on non-oil exports in the case of Norway. Similarly, there was a measurable impact on productivity growth in New Zealand and Canada, but not in Norway. In terms of employment effects, the model used by the authors suggests heterogenous effects of the reform (depending on the stage of the liberalisation process analysed) in New Zealand, some positive spillover effects for Canada and rather large and statistically significant effects for Norway. However, both New Zealand and Norway implemented other policy reforms around the same time as they liberalized their trade, which complicates the analysis of the effects. A summary of the study is available in SCHROPP and MAHLSTEIN (2018). See also GARNAUT (2003) on the Australian experience and EVANS and RICHARDSON (2003) on the New Zealand experience.

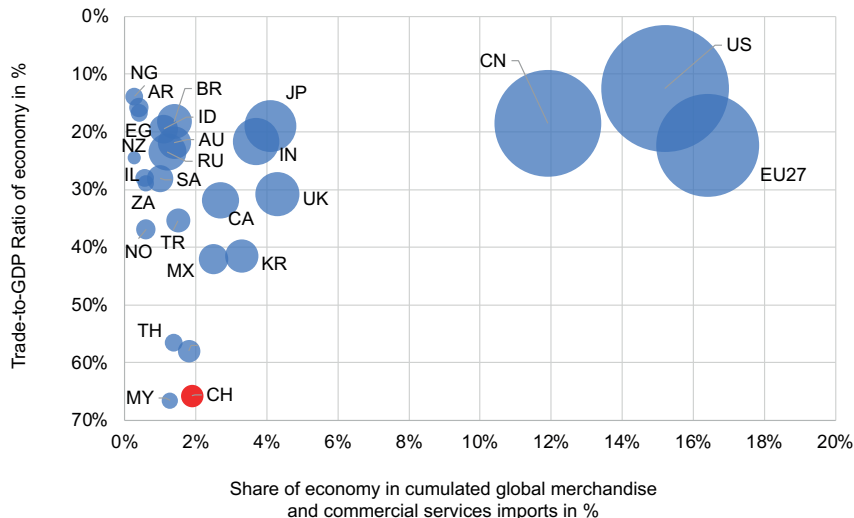
- A certain exhaustion of the economically meaningful and politically feasible potential of reciprocity-based trade agreements (and hence the limited value of retaining negotiating mass for future negotiations)
- Floating exchange rates (and possibly a liberal labor market), which help to absorb any imbalances resulting from unilateral liberalization in the balance of payments or in the labor market
- A (domestic) political-economy equilibrium against protectionism and in favor of joining international supply chains. Such an equilibrium is most likely when:
 - the economy is already highly integrated in international value chains;
 - the overall level of tariffs and protection is low, limiting the impact of further liberalization on income distribution (e.g., losses in import-competing sectors);
 - the contribution of tariffs to government coffers is limited and the elimination of tariffs does not jeopardize the financing of public tasks.

Where does Switzerland stand in relation to these factors?

Taking into account its market weight and its integration into global supply chains, we find that Switzerland is relatively well positioned for unilateral tariff liberalization. On the one hand, Switzerland's international market weight is limited, with the country accounting for only 1.67% of global merchandise imports and 2.96% of global imports of commercial services (corresponding to a share of 1.9% of cumulated global merchandise and commercial services imports). At the same time, Switzerland's trade dependence is high, with a trade-to-GDP ratio of 65.8%. A synopsis of both indicators (enriched by countries' shares in world GDP, which is 0.8% in the case of Switzerland) suggests that Switzerland has a highly integrated, trade-dependent economy, but a limited market weight and thus a limited potential to extract trade concessions in reciprocity-based negotiations. This is illustrated by its position in the bottom left-hand corner of Figure 1, which includes all G20 members and selected other economies, representing together approximately 90% of global GDP.

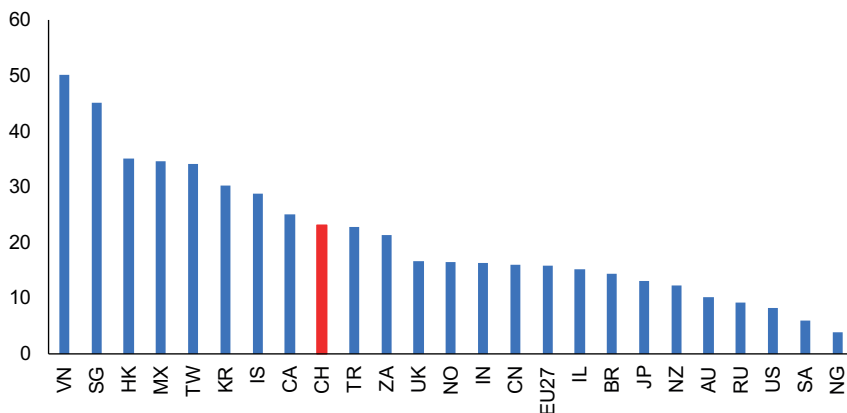
The strong integration of Swiss manufacturing in global value chains is also reflected in the relatively high import content of Swiss exports (23.2%) compared to its main competitors from the European Union, Japan, the United Kingdom or the United States (see Figure 2).

Figure 1: Market weight and trade dependency
 Global import shares, Trade-to-GDP ratios, and GDP in USD (bubble size)
 G20 plus selected other economies (representing approximately 90% of Global
 GDP; 2022)



Data sources: (i) data on merchandise and services imports: WTO, World Trade Statistical Review 2023, Tables A6 and A7, data for 2022; (ii) trade-to-GDP ratio: WTO, Trade Profiles 2023; averages for 2020-2022 (US: 2019-2021); (iii) GDP in current US dollars: World Bank, Indicator “GDP (current US\$)”, code NY.GDP.MKTP.CD (data for TW: WTO, Trade Profiles 2023). Data refer to 2022 where available, otherwise the latest available values have been used.

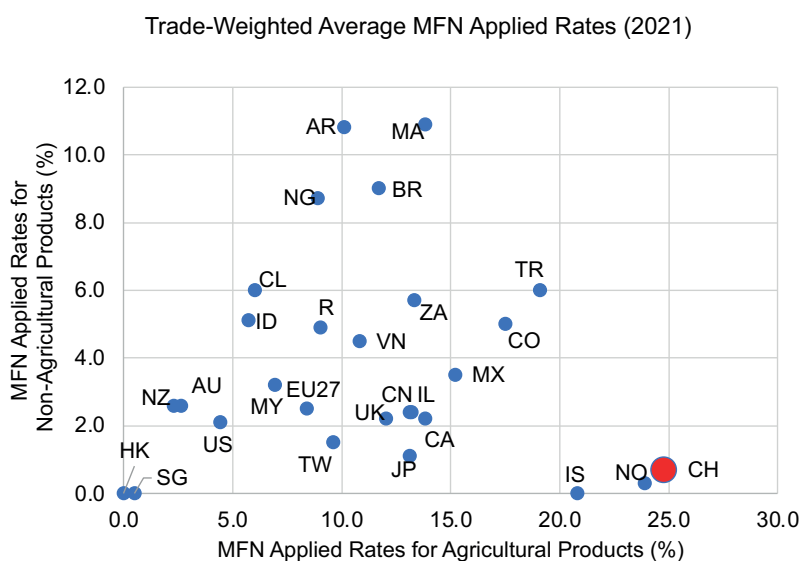
Figure 2: Share of imports in exports (in %)



Data source: OECD, Data series “Import content of exports”, total, % of gross exports, 2020 (<https://data.oecd.org/chart/7ei0>)

Looking at the level of applied MFN tariffs in 2021, Switzerland's tariff pattern is characterized by high MFN applied rates on agricultural imports and low MFN applied rates on imports of industrial goods – a feature it shares with its partners in the European Free Trade Association (EFTA), Norway and Iceland (see Figure 3). These high agricultural tariffs fulfil a politically intended protective function for the Swiss agricultural sector, which also limits the scope for concessions in reciprocal trade negotiations, let alone unilateral tariff reductions in domestically relevant segments of this sector. The situation is quite different with regard to the already low import tariffs on industrial goods. Their dismantling is unlikely to lead to a major shift in demand from domestic to foreign producers and thus to politically problematic distributional effects (for example, through increased competitive pressure on import-competing sectors and their factor incomes). Accordingly, Switzerland is well positioned internationally for a reduction in industrial tariffs – similar to Singapore, Hong Kong, Norway and Iceland.

Figure 3: MFN applied rates on agricultural and non-agricultural imports, 2021



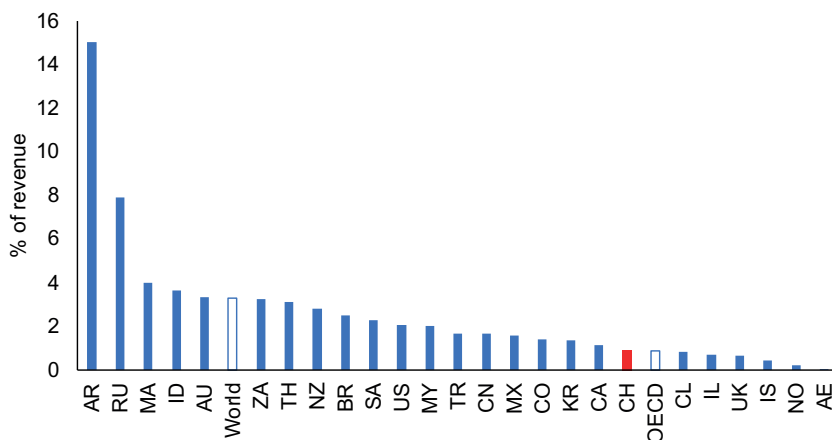
Note: Korea and India are not shown in the graph because their MFN applied rates for agricultural products (KR: 89.3%; IN: 48.5%) are outside the graphically displayed data range.

Data source: WTO, World Tariff Profiles 2023, Data for 2021, Excel sheet "Summ_Trade_EN_WTP23", series "Imports Profile" -> "Trade-Weighted Average MFN Applied AG/Non-Ag (Per cent)" (https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/TradeSummary_E.zip).

If we look at the pipeline of unrealized Swiss FTA projects for which it would make sense to keep tariffs as negotiating mass, this pipeline is gradually being depleted as a large number of FTAs have already been concluded and the low-hanging fruit has been picked (see Sections 3.3 and 6.6 for more details).

As far as revenues from taxes on international trade are concerned, an international comparison (see Figure 4) suggests that the Swiss government budget is not heavily dependent on them. According to World Bank data, taxes on international trade accounted for only 0.92% of revenues in 2021 in the Swiss case, a figure broadly in line with the OECD average (0.88%) and well below the global average (3.2% in 2020).¹⁴ Add to this a generally healthy fiscal climate with low levels of debts and deficits and moderate taxes by international standards.

Figure 4: Taxes on international trade: Share of revenue, 2021



Data source: World Bank, data series “Taxes on international trade (% of revenue)”, code GC.TAX.INTT.RV.ZS (<https://data.worldbank.org/indicator/GC.TAX.INTT.RV.ZS>); data for 2021 or latest available.

On the monetary front, Switzerland has its own currency, the Swiss franc. It can therefore conduct its own monetary policy. The IMF classifies the *de jure* exchange rate arrangement as free floating and the *de facto* exchange rate arrangement as a crawl-like arrangement, taking into account past interventions by the Swiss National Bank.¹⁵ Under these conditions, it can be assumed that any macroeconomic imbalance resulting from unilateral liberalization could be

¹⁴ It should be noted that due to specific definitions, these figures are not comparable with Swiss national data (which are presented in more detail in Section 3); see IMF (2014) for definitions and methodology, in particular pp. 84ff on the definition of revenue and pp. 100ff on the definition of taxes on international trade.

¹⁵ See IMF (2023a, pp. 3693ff) for details.

absorbed by exchange rate adjustments. In any case, given the safe-haven nature of the Swiss franc, the challenge for Swiss monetary policy has traditionally been to manage upward pressures rather than to avoid depreciation risks. As for the Swiss labor market, it is characterized by above-average flexibility,¹⁶ which also contributes to the absorption capacity of any imbalance resulting from unilateral liberalization. However, such imbalances are highly unlikely in any case, given the already low MFN tariffs on industrial goods at the outset.

In summary, applying the considerations from the relevant literature and compared to many other economies, we find that Switzerland is relatively well positioned for unilateral liberalization. It is highly dependent on international trade and deeply integrated in international value chains, which generally argues in favor of open markets. At the same time, its limited market power, its already low MFN rates for industrial products (along with little flexibility in agricultural concessions) and the presence of an already large network of FTAs limit the potential for new agreements in reciprocity-based negotiations, making unilateral liberalization an alternative option for further liberalization. In addition, low dependence of the government budget on customs revenue will not prevent such liberalization.

3 Tariffs in Switzerland

3.1 The history of tariffs¹⁷

Customs duties have a long tradition in Switzerland. At the time of the Roman Empire, most of what is now Switzerland belonged to a customs district in which the *Quadragesima Galliarum*, the fortieth tax (= 2.5%) of the Gallic provinces, was levied. Customs revenues continued to be of fiscal importance in later centuries. In Habsburg times, for example, the revenue from the Gotthard customs on the North-South axis through Switzerland alone exceeded the total revenue from the Habsburg possessions in Alsace. After the Habsburgs were pushed back, the cities began to pursue their own customs policies. The oldest customs tariff of the city of Lucerne, for example, dates from 1390.

In the first half of the 19th century, the tariff burden in Switzerland was relatively low by international standards – not only compared with traditionally protectionist neighbors such as Austria and France, but also with Great Britain and the German Customs Union. An early example of unilateral trade liberalization occurred in 1835, when the canton of Zurich abolished all cantonal customs duties and

¹⁶ See international comparisons in OECD (2020), in particular Figures 3.7, 3.8, 3.9, 3.10, 3.11, 3.12, 3.13, and BUNDESAMT FÜR STATISTIK (2021, pp. 14f).

¹⁷ This section is based on POLLI-SCHÖNBORN (2015).

financed its budget exclusively through direct taxes. The Zurich system was regarded as exemplary, but was not imitated by other cantons, which continued to levy import, transit and export duties, including on trade between themselves. The centralization of the Swiss customs system took place only with the creation of the federal state (1848) and the creation of a single customs territory covering the whole of the Swiss Confederation, and only after tough negotiations with the cantons. The Confederation became entitled to collect customs duties at the national borders, while the cantons were fully compensated for the abolition of internal customs duties.

3.2 Characteristics of the current Swiss tariff system

The current Swiss tariff system has some notable features. One peculiarity is that, unlike in most other countries, all tariffs are specific duties and do not require customs valuation, as the duty is calculated on gross weight (weight of goods plus packaging) or, in rare cases, on pieces or liters.

The Swiss customs tariff is based on the Harmonized System¹⁸ of 2022 (HS22) and comprises 9,114 tariff lines at the 8-digit level. Tariffs are much higher for agricultural products than for industrial products. The latest *ad valorem equivalents* (AVE) of the trade weighted average MFN applied rates for 2021, calculated by the WTO, are 24.8% for agricultural products and 0.7% for non-agricultural imports.¹⁹ In its 2019 edition of the *Global Competitiveness Report*, the World Economic Forum (WEF) considered Switzerland to have the most complex tariff system of all 141 countries surveyed.²⁰

Switzerland has bound about 99% of its tariffs in the WTO, with only 83 tariff lines (at the HS 8-digit level) being unbound (gas, petroleum and related products) (WTO, 2022a, Section 3.1.3.3, No. 3.32, p. 63).

18 The Harmonized System (short form: HS; long form: Harmonized Commodity Description and Coding System) is a multipurpose international product nomenclature developed by the World Customs Organisation (WCO). In the HS, each product or product group is identified by a six-digit code. The HS is used by more than 200 countries and economies as a basis for their customs tariffs. Individual countries using the HS may add further digits to the HS numbers for internal purposes. The HS is normally updated every 5 to 6 years. Source and further information: World Customs Organisation (<https://www.wcoomd.org/en/topics/nomenclature/overview/what-is-the-harmonized-system.aspx>).

19 WTO, World Tariff Profiles 2023, data for 2021, Excel sheet "Summ_Trade_EN_WTP23", series "Imports Profile". It should be noted, however, that the methodology used by the WTO to calculate AVE is controversial (WTO, 2022a, Nos. 3.21-3.28, and in particular No. 3.25, p. 59f).

20 See WEF (2019, pp. 15 and 536, index component 7.06; "complexity of tariffs"). For a general overview of Swiss tariff characteristics, customs procedures and requirements, see WTO (2022a, Section 3.1.1, pp. 55ff).

The Swiss tariff system also applies to the Principality of Liechtenstein as there has been a customs union between the two countries since January 1924.²¹

3.3 Trade preferences: FTAs and the Generalised System of Preferences

Today, imports from most countries can enter Switzerland on a preferential basis – under FTAs or under the Generalised System of Preferences (GSP) – provided that the preferential rules of origin are fulfilled.

At the time of writing (autumn 2023), Switzerland has a network of 35 FTAs with 75 countries or territories.²² According to data collected and presented by SECO in its publicly accessible *FTA Monitor*,²³ in 2021, the tariff savings realized by FTA partners on imports into Switzerland totaled CHF 2.4 billion. Despite FTAs being in place, a total of CHF 542 million in tariffs were levied on products that could have been imported duty-free under the FTA. There may be several reasons for this: rules of origin may not be met, or traders may, for whatever reason, prefer not to claim preferential treatment when importing into Switzerland. The realized and unrealized tariff savings by FTA partner are shown in Table 1.

In addition to preferential treatment under its FTAs, Switzerland grants duty-free market access to all industrial products originating in developing countries – with the exception of certain textiles and footwear – under the GSP for developing countries.²⁴ At the time of writing, a total of 119 countries are beneficiaries of the

21 Based on the Customs Treaty between Switzerland and Liechtenstein of 29 March 1923 (*Vertrag zwischen der Schweiz und Liechtenstein über den Anschluss des Fürstentums Liechtenstein an das schweizerische Zollgebiet*; SR 0.631.112.514), Switzerland and Liechtenstein maintain a customs union. The provisions of the above-mentioned treaty stipulate that Swiss laws pertaining to customs as well as other federal legislation necessary for the implementation of the customs-free zone are also applicable in Liechtenstein. In addition, trade and customs treaties concluded by Switzerland with third parties (with the exception of the EEA countries) on trade in goods also apply to Liechtenstein. As a result of the customs union, the abolition of industrial tariffs discussed in this paper will apply not only to imports into Switzerland but also to imports into Liechtenstein.

22 A list of Swiss FTA partners is available at https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/Freihandelsabkommen/partner_fha.html.

23 See the SECO website at <https://www.seco.admin.ch/fta-monitor>.

24 Trade preferences under the GSP are based on Part IV (Trade and Development) of the GATT 1947 and, in particular, the so-called “Enabling Clause” (Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries; Decision of 28 November 1979, L/4903; https://www.wto.org/english/docs_e/legal_e/enabling_e.pdf). It stipulates that, notwithstanding the MFN clause in Art. I GATT, members may accord differential and more favorable treatment to developing countries without according such treatment to other contracting parties.

Swiss GSP.²⁵ In 2020, GSP treatment led to tariff savings of CHF 137.5 million on imports into Switzerland.

Table 1: Realized and non-realized tariff savings under Swiss FTAs, 2021 (imports)

FTA partner	Realized tariff savings (CHF)	Non-realized tariff savings (CHF)	Partner's share in all realized tariff savings
European Union	2,057,424,271	264,471,122	85.17%
China	197,140,471	202,640,897	8.16%
Turkey	55,352,539	22,093,830	2.29%
United Kingdom	21,586,612	13,911,691	0.89%
Saudi Arabia	11,009,003	248,645	0.46%
Morocco	6,033,429	3,920,265	0.25%
Japan	5,832,735	5,802,251	0.24%
Norway	5,527,610	214,984	0.23%
Colombia	5,277,230	1,746,729	0.22%
Serbia	5,188,382	1,881,376	0.21%
Ecuador	5,156,361	337,633	0.21%
Bosnia and H.	4,726,760	949,995	0.20%
Korea	4,560,516	3,350,182	0.19%
Iceland	4,013,568	15,947	0.17%
United Arab Emirates	3,543,088	656,416	0.15%
South Africa	3,450,035	1,541,805	0.14%
Mexico	2,970,244	2,090,846	0.12%
Tunisia	2,327,469	3,522,437	0.10%
<i>All other FTA partners*</i>	<i>14,541,490</i>	<i>13,087,731</i>	<i>0.60%</i>
Total	2,415,661,814	542,484,783	100.00%

Note: *These are Bahrain, Peru, Ukraine, Israel, North Macedonia, Panama, Canada, Egypt, Costa Rica, Albania, Singapore, Philippines, Hong Kong, Oman, Lebanon, Chile, Jordan, Montenegro, Georgia, Faroe Islands, Palestine, Namibia, Kuwait, Qatar, Eswatini, Botswana, and Lesotho.

²⁵ Seventy-one developing countries and 48 LDCs benefit from these preferences, with LDCs enjoying duty-free and quota-free access for all products. The legal basis for the Swiss GSP is the Ordinance on Preferential Tariff Rates in favor of Developing Countries ("Tariff Preferences Ordinance"; in German: *Verordnung über die Präferenz-Zollansätze zugunsten der Entwicklungsländer (Zollpräferenzverordnung)*); SR 632.911 (<https://www.fedlex.admin.ch/eli/cc/2007/159/de#app1>). The countries eligible for GSP treatment are listed in Annex 1 of the Ordinance.

Taking FTAs and GSP treatment together, nearly 200 countries or territories benefit from duty-free treatment for products that meet the relevant preferential origin requirements, making the “normal” non-preferential MFN treatment under Art. I GATT the exception rather than the rule. The only major countries and territories of origin of Swiss imports that do not benefit from an FTA or GSP treatment and therefore remain subject to MFN treatment are Australia, New Zealand, Russia, Taiwan and the United States.

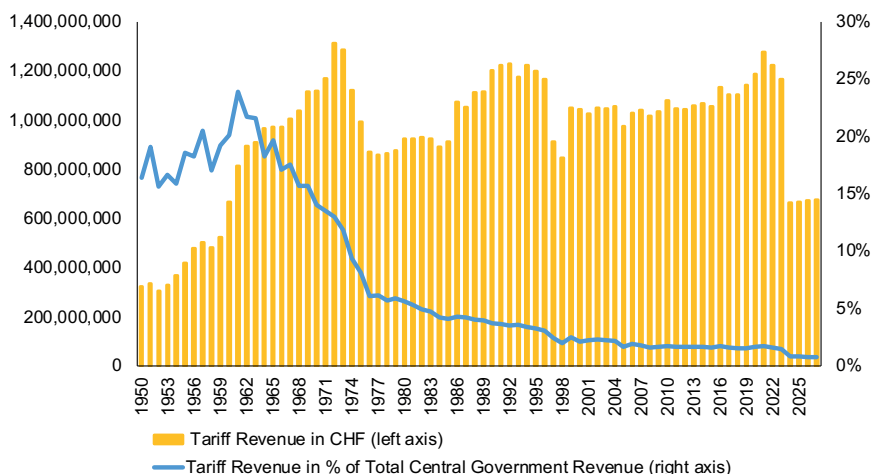
3.4 The decreasing fiscal relevance of tariffs

The fiscal importance of import tariffs in Switzerland was high in the first decades after the founding of the federal state: in view of their role in financing the state, they were continuously increased and accounted for up to three quarters of federal revenue towards the end of the 19th century. Under the influence of emerging business associations, they were increasingly used not only for fiscal purposes but also for protectionist purposes, as had already been the case in neighboring countries (POLLI-SCHÖNBORN, 2015).

From the second half of the 20th century onwards, the tariff burden fell as a result of subsequent tariff reductions. The latter were due to Switzerland’s membership in the GATT after 1966 (and later in the WTO), the conclusion of FTAs and tariff concessions under the GSP. At the same time, the federal government broadened its revenue base by increasing the contribution of other taxes such as federal direct tax, value-added tax or withholding tax.

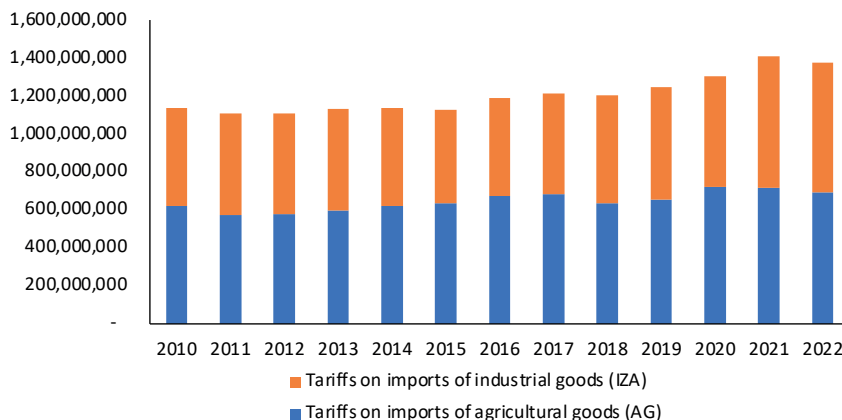
Figure 5 shows the declining share of tariffs in government revenue since 1960. While in absolute nominal terms tariff revenue remained broadly constant at around CHF 1 billion per year (columns), their relative share of the central government’s current revenues has declined (line): whereas in 1961 tariffs accounted for around 23.9% of the Swiss central government’s current revenues, this share declined to just 1.61% in 2022. It is expected to halve to around 0.82% in 2024, when industrial tariffs are phased out and only tariffs on agricultural imports remain. Further small reductions in the share of tariffs in central government financing are expected in subsequent years. The respective shares of tariffs on agricultural goods imports and on industrial goods imports and their evolution over time are shown in Figure 6.

Figure 5: Tariff revenue as a share of total current revenue, 1950–2027



Data sources: (i) Data for 1990–2027: Data portal of the Swiss Federal Finance Administration, data series 1.1.7 (tariffs) and 1 (current revenue) (<https://www.data.finance.admin.ch/>); (ii) data for 1950–1989: Historische Statistik der Schweiz HSSO, data set U.18 “Einnahmen des Bundes nach Sachgruppen 1950-1989 in Mio. CHF” (<https://hssso.ch/de/2012/u/18>).

Figure 6: Shares of agricultural and industrial tariffs in total tariff revenue, 2010–2022



Source: State Secretariat for Economic Affairs SECO/Federal Office of Customs and Border Security, 2023.

4 Initial project work for the abolition of industrial tariffs

On 24 February 2014, the Economic Affairs and Taxation Committee of the National Council (EATC-N)²⁶ adopted Postulate No. 14.3014 (WAK-N, 2014).²⁷ and a number of other proposals related to international trade.²⁸ This postulate instructed the Federal Council (i.e., the executive branch of government) to submit a report to Parliament on whether and how documents other than official certificates of origin could be recognized as proof of origin under the FTA between Switzerland and the EU. This postulate was motivated by the finding that EU suppliers are preventing parallel imports²⁹ into Switzerland by not issuing certificates of origin for trade outside official distribution channels. This practice is seen as allowing EU suppliers and their official distributors to seal off the Swiss market and skim off the high Swiss purchasing power, thus contributing to the problem of the "high-price island of Switzerland", to the detriment of Swiss buyers.

On 14 March 2014, the Federal Council stated in its response to the postulate that a review of the existing legal and administrative conditions with regard to the obstruction of parallel imports was warranted. It therefore proposed that the postulate be adopted. On 19 March 2014, the National Council adopted the postulate.

On 22 June 2016, the Federal Council published the mandated report (BUNDESRAT, 2016), prepared by the State Secretariat for Economic Affairs (SECO), a federal office within the Federal Department of Economic Affairs, Education and Research (EAER). In its report, the Federal Council emphasized that there was no isolated factor that increased the cost of (parallel) imports or that was solely responsible for the Swiss "high-price island." While price levels were strongly influenced by local wage and cost levels, the report also identified a mosaic of tariff and non-tariff trade barriers that led companies to close off the Swiss market. Based on these findings, the report listed a number of options for action

26 A brief overview of the Swiss parliamentary system, as far as it is relevant for the readers of this article, can be found in Box 3 in Section 7.1.

27 A postulate instructs the Federal Council to examine and report on whether to submit a bill to the Federal Assembly or to take a measure. A postulate may be submitted by the majority of the members of a committee, by a parliamentary group or by a member of the Assembly. The postulate is adopted if one Council adopts it (source: <https://www.parlament.ch/en/%C3%BCber-das-parlament/parlamentsw%C3%B6rterbuch/parlamentsw%C3%B6rterbuch-detail?WordId=177>).

28 Motion 14.3011 (Cost reduction through an electronic customs procedure); Motion 14.3012 (Cost reduction through flexibility when crossing the border); Postulate 14.3013 (Advantages and disadvantages of a transition to an *ad valorem* duty system for finished industrial products) and Postulate 14.3015 (Simplified levying of value added tax on the import of goods. System of Denmark). These proposals are available at <https://www.parlament.ch/en>.

29 Parallel imports are imports of goods that bypass the manufacturer's intended distribution structure (e.g., official sales channels).

that could help facilitate trade or reduce prices. Barriers to trade were identified, primarily customs duties and customs formalities. While border protection was relatively high, especially in the agricultural and food sectors, the report found that trade could also be facilitated in the industrial sector through autonomous tariff elimination. In addition to tariffs and customs procedures, the report also identified technical trade barriers (such as the exceptions to the “Cassis de Dijon” principle³⁰ and private restrictions on competition). On the same day as the publication of this report, the Federal Council published a report on new policies for growth in which it decided, among other things, to further analyze the feasibility of a unilateral abolition of industrial tariffs (BUNDESRAT, 2016a; 2016b).

On 20 December 2017, the Federal Council proposed a series of measures to reduce trade barriers, thereby contributing to the fight against the high price level in Switzerland.³¹ On the basis of this decision, on 7 December 2018, the Federal Council adopted a bill for a consultation procedure³² on an autonomous abolition of industrial tariffs and on a simplification of the tariff structure for industrial products. The consultation period lasted from 7 December 2018 to 21 March 2019. A total of 67 comments were received during the consultation procedure. The results of this consultation procedure were documented in a report by SECO (SECO, 2019).³³

Regarding the abolition of industrial tariffs, 53 participants were in favor, two were neutral and 12 were against. Those who were generally in favor included all the cantons that made their position known, four political parties – FDP, Die Liberalen (Liberals), the Green Liberal Party (GLP), the Christian Democratic

30 The “Cassis de Dijon” principle was developed by the European Court of Justice (Judgment of the Court of 20 February 1979, Case 120/78). Switzerland adopted this principle autonomously in 2010. It stipulates that a product that complies with the technical regulations of the European Union, of a member state of the European Union or of the European Economic Area (EEA) and is lawfully placed on one of these markets may, in principle, be placed on the Swiss market without any further controls. Exceptions to this principle are only possible if there are overriding public interests at stake. An indicative negative list contains all the products excluded from the “Cassis de Dijon” principle. Further information can be found at https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/Technische_Handelsbarrieren/Cassis-de-Dijon-Prinzip.html.

31 In addition to the abolition of tariffs on imports of industrial products, the package also included other ideas such as the elimination of tariffs on imports of selected agricultural products not produced in Switzerland, such as bananas and other exotic fruits, and a more efficient administration of the Cassis-de-Dijon principle by eliminating exemptions and replacing the authorization procedure for foodstuffs with a digital notification procedure. See EIDGENÖSSISCHES DEPARTEMENT FÜR WIRTSCHAFT, BILDUNG UND FORSCHUNG WBF (2017).

32 A consultation procedure (in German: *Vernehmlassung*) is a mandatory procedure in which a planned legislative project at federal level is assessed for accuracy, enforceability and acceptability. The full documentation of the consultation procedure on the abolition of industrial tariffs (Public Consultation No. 2018/87) is available at https://fedlex.data.admin.ch/eli/dl/proj/6018/87/cons_1.

33 All responses received have been published and are available at https://www.fedlex.admin.ch/filestore/fedlex.data.admin.ch/eli/dl/proj/6018/87/cons_1/doc_6/de/pdf-a/fedlex-data-admin-ch-eli-dl-proj-6018-87-cons_1-doc_6-de-pdf-a.pdf.

People's Party (CVP, now the Centre Party)³⁴ and UP – and the vast majority of business associations, chambers of commerce and companies. They welcomed both the financial and administrative relief that the measure would bring. The abolition of the requirement for proof of origin for products with Switzerland as their final destination was welcomed as a major relief – although intermediate goods would still need to be accompanied by certificates of origin if the final products in which they were incorporated were later to be exported and their preferential origin had to be proved.

Two major political parties opposed the proposal. The Social Democratic Party (SP) opposed it mainly because of the loss of government revenue, while the Swiss People's Party (SVP) criticized the unilateral nature of the measure, fearing the loss of a bargaining chip in future trade negotiations. Both parties argued that tariff liberalization should take place in the context of FTA negotiations. Trade unions also reacted negatively, lamenting what they saw as a marginal impact on the economy. Negative comments were also received from organizations in the agricultural sector. Although the proposed tariff abolition only concerned industrial products, they feared that the abolition of industrial tariffs would increase pressure to liberalize border protection in the agricultural sector. In their view, Switzerland would unnecessarily give up negotiating leverage and thus indirectly increase pressure on agricultural tariffs. Farmers' organizations were also concerned that the loss of state revenue would put pressure on the funds earmarked in the budget for the agricultural sector.

Perhaps surprisingly, there was only lukewarm support from the consumer organizations that commented on the bill (FRC, 2019; STIFTUNG FÜR KONSUMENTENSCHUTZ, 2019). While they did not oppose it, they doubted its effectiveness in combating the high-price island that is Switzerland. In their view, the bill would primarily benefit businesses, with only marginal benefits for consumers. Doubts were expressed as to whether the savings made by the business sector as a result of the abolition of tariffs and the reduction of administrative burdens would be passed on to consumers. Accordingly, they considered other measures to be more effective in the fight against high prices in Switzerland – in particular the “Fair Price Initiative”, which was under public debate at the same time. It aimed to combat high prices in Switzerland through a series of measures against anti-competitive behavior by private companies.³⁵

The second element – the proposed simplification of the customs tariff structure – was supported by 40 respondents. They saw it as a measure that would

34 The CVP, however, made it clear in its response that it considered other tax reform projects to be a higher priority for the party (CVP, 2019).

35 See BUNDES RAT (2019b) for details.

particularly benefit small and medium-sized enterprises (SMEs), which often lack the knowledge to classify goods correctly. Only two participants (both from the agricultural sector) opposed the proposed simplification on the grounds of transition costs.

On 27 November 2019, the Federal Council took note of the results of the consultation procedure. In view of the generally positive response from most participants, the Federal Council did not make any changes to its original proposal which was the subject of the consultation and submitted the dispatch³⁶ containing the legislative proposal on the abolition of industrial tariffs and the simplification of the Tariff Code to Parliament for deliberation. The parliamentary procedure is the subject of Section 7.

5 The substance of the reform: Autonomous abolition of industrial tariffs and simplification of the tariff structure

Formally, the reform consists of a law amending Annexes 1 and 2 of the Swiss Customs Tariff Act (CTA).³⁷ These annexes make up the Swiss General Tariff,³⁸ a 657-page document containing the applied tariff rates for all products and other technical specifications (Annex 1) as well as tariff rate quotas (Annex 2). On the basis of Article 15 of the CTA, the Federal Council adopted on 15 February 2023 a 263-page ordinance containing all the amendments to the Swiss General Tariff that will enter into force on 1 January 2024.³⁹

36 See BUNDESRAT (2019). A dispatch (in German: *Botschaft*) from the Federal Council to the Federal Assembly (Parliament) is a document containing an explanation of the bills it has drafted, i.e., new laws, amendments to laws, federal decrees and international treaties that must be submitted to the Federal Assembly for approval.

37 In German: *Zolltarifgesetz* (ZTG). The CTA is available in the Systematic Compilation of Swiss Law (*Systematische Rechtssammlung*; SR) under the reference number SR 632.10. An English translation of the CTA is available at https://www.fedlex.admin.ch/eli/cc/1987/1871_1871_1871/en. The amendment to the CTA enacting the reform has been published in the Official Compilation (Amtliche Sammlung; AS) under the reference number AS 2022 119 (<https://www.admin.ch/opc/de/official-compilation/2022/119.pdf>).

38 The Swiss General Tariff (in German: *Schweizer Generaltarif*) is published on the website of the Federal Office for Customs and Border Security (FOCBS) in its current version of 1.1.2022 (reflecting tariffs applicable until 31 December 2023) at https://www.bazg.admin.ch/dam/bazg/de/dokumente/verfahren-betrieb/grundlagen-und-wirtschaftsmassnahmen/zolltarif/tares/Generaltarif_2022.pdf.download.pdf/Generaltarif_2022.pdf.

39 Ordinance of 15 February 2023 on the Amendment of the Customs Tariff in Annexes 1 and 2 to the Customs Tariff Act and on the Adaptation of Decrees in Connection with this Amendment, AS 2023.86 (in German: *Verordnung vom 15. Februar 2023 über die Änderung des Zolltarifs in den Anhängen 1 und 2 zum Zolltarifgesetz und über die Anpassung von Erlassen im Zusammenhang mit dieser Änderung*). The amended customs tariffs applicable as from 1 January 2024 are set out in Annex 1 to the Ordinance. It is available on the BAZG website at [https://www.bazg.admin.ch/dam/bazg/de/dokumente/verfahren-betrieb/grundlagen-und-wirtschaftsmassnahmen/zolltarif/tares/Verordnung%20%C3%BCber%20die%20%C3%84nderung%20des%20Zolltarifs%20vom%2015.%20Februar%202023%20\(IZA\).pdf.download.pdf/verordnung%C3%BCberdie%C3%A4nderungdeszolltarifs.pdf](https://www.bazg.admin.ch/dam/bazg/de/dokumente/verfahren-betrieb/grundlagen-und-wirtschaftsmassnahmen/zolltarif/tares/Verordnung%20%C3%BCber%20die%20%C3%84nderung%20des%20Zolltarifs%20vom%2015.%20Februar%202023%20(IZA).pdf.download.pdf/verordnung%C3%BCberdie%C3%A4nderungdeszolltarifs.pdf).

In substance, the reform consists of two key elements: the abolition of applied tariffs on all industrial products and a simplification of the Swiss General Tariff.⁴⁰

5.1 The abolition of applied tariffs on all industrial products

The reform provides for the abolition of all import duties on industrial products. It will enter into force on 1 January 2024. This means that Switzerland will reduce the applied tariff rate to zero for all industrial products by adjusting the relevant rates of the General Tariff in Annex 1 of the CTA on that date. Industrial products are understood to include all goods in Chapters 25-97 of the Harmonized System with the exception of agricultural products⁴¹ (including animal feed) and fishery products. The goods for which tariffs will be eliminated include both inputs for production processes (capital goods, raw materials, semi-finished products) and consumer goods (e.g., bicycles, cars, household appliances, clothes or shoes).

The abolition of applied industrial tariffs does not entail any changes to existing international agreements (WTO, FTAs). This also means that bound tariffs according to Switzerland's Goods Schedule LIX at the WTO will remain unchanged and will therefore not be abolished. In theory, therefore, Switzerland remains legally able to reintroduce applied industrial tariffs at a later date up to the level bound in the WTO or FTAs.⁴² The only way for trading partners to remove this remaining legal uncertainty is to conclude an FTA with Switzerland. In other words, even after the abolition of industrial tariffs, the incentives to conclude FTAs with Switzerland will remain in the industrial goods sector, not to mention other areas such as agricultural market access, services, intellectual property rights (IPR), investment and other issues typically covered in modern FTAs.

40 A full overview of the reform and its context can be found in the Dispatch of the Federal Council on the Modification of the Customs Tariff Act (in German: *Botschaft zur Änderung des Zolltarifgesetzes (Aufhebung der Industriezölle) vom 19. November 2019*; 19.076). It was published in the Federal Gazette (in German: *Bundesblatt*; BBl) under reference No. 2019 8479, hereinafter referred to as BUNDESRAT (2019).

41 These exceptions are as follows: In Chapter 35, caseins (tariff numbers 3501.1010, 3501.1090, 3501.9011, 3501.9019, 3501.9091, 3501.9099), albumins (tariff numbers 3502.1110, 3502.1190, 3502.1910, 3502.1990), dextrans (tariff numbers 3505.1010, 3505.1090, 3505.2010) and adhesives (3506.9910); in Chapter 38, finishing agents and dye carriers on the basis of starch and starch derivatives (tariff heading 3809.1010), industrial monocarboxylic fatty acids, acid oils from refining and industrial fatty alcohols (tariff headings 3823.1110, 3823.1210, 3823.1910) and binders as well as certain chemical products and preparations (3824.1010, 3824.9991, 3825.9010).

42 Switzerland's commitments under the WTO Agreements are reflected in Schedule LIX (available on the WTO website at https://www.wto.org/english/tratop_e/schedules_e/goods_schedules_e.htm). Information on Swiss FTAs is available on the website of SECO (https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/Freihandelsabkommen.html).

Tariffs on agricultural products will also remain unchanged. The current system of specific duties will not be modified either.

On the basis of the Customs Treaty of 29 March 1923 between Switzerland and Liechtenstein, both the abolition of customs duties on industrial products and the simplification of the tariff structure will also apply to imports into Liechtenstein.

5.2 The simplification of the Swiss General Tariff

The Swiss customs tariff contains a total of 6,408 individual eight-digit tariff numbers (tariff lines) in chapters 25 to 97 (industrial products). While the first six digits are internationally standardized according to the Harmonized System, the last two digits are defined by Switzerland.

The current customs tariff structure has grown historically and contains many subdivisions at the national eight-digit level. The eight-digit subdivisions allowed tariffs to be differentiated according to specific product characteristics such as unit weight, intended use, processing or finishing. With the abolition of all industrial tariffs, these different eight-digit tariff numbers will in most cases lose their original purpose. Accordingly, most of the eight-digit subdivisions will be eliminated, reducing the total number of tariff numbers from 9,114 to 7,511.⁴³ This will make it easier for businesses to identify the correct tariff number.

Technically, the simplification of the tariff structure will be implemented through an adjustment of the General Tariff in Annex 1 of the CTA, too. As with the elimination of industrial tariffs, the simplification of the tariff structure will be limited to industrial products, while the tariff structure in the agricultural sector will remain unchanged.

The two parts of the reform – the elimination of industrial tariffs and the simplification of the tariff structure – are materially linked. Since in many cases the existing eight-digit tariff lines are subject to different tariff rates, a simplification of the tariff structure without a simultaneous abolition of industrial tariffs would be extremely costly. The tariffs for the merged tariff lines would have to be reassessed and possibly renegotiated in the WTO under Article XXVIII GATT. It would therefore have been difficult to separate the simplification of the tariff structure from the abolition of industrial tariffs.

⁴³ The tariff lines affected by the simplification will be removed from the general tariff. Those eight-digit tariff numbers that are still required by law or ordinance will not be removed. These include tariff numbers required for the collection of mineral oil tax or automobile tax as well as for export control purposes (e.g., military goods) and the implementation of sanctions.

Table 2 shows the interaction between the abolition of tariffs and the simplification of the tariff structure for the illustrative example of reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87. The first column shows the new tariff numbers after 1 January 2024, which consist only of the first six digits (according to the internationally agreed Harmonized System). The former Swiss-specific seventh and eighth digits have been replaced by “00” as a result of the simplification of the Swiss General Tariff. As can be seen in the second column, all tariffs have also been reduced to 0.00. The third column shows the previous tariff numbers with the Swiss-specific divisions (7th and 8th digits), while the fourth column shows the previous tariff rates which differed between the various 8-digit positions.

Table 2: Illustrative example: Comparison of old versus new tariff numbers and rates

1.1.2024 Tariff number NEW	1.1.2024 Duty rate NEW	1.1.2022 Tariff number	1.1.2022 Duty rate		Text E
				-	reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87
8407.3100	0.00	8407.3100	46.00	--	of a cylinder capacity not exceeding 50 cc
8407.3200	0.00	8407.3200	46.00	--	of a cylinder capacity exceeding 50 cc but not exceeding 250 cc
8407.3300	0.00	8407.33		--	of a cylinder capacity exceeding 250 cc but not exceeding 1000 cc
		8407.3310	80.00	---	for motor vehicles
		8407.3320	47.00	---	for motorcycles
		8407.3390	27.00	---	other
8407.3400	0.00	8407.34		--	of a cylinder capacity exceeding 1000 cc
		8407.3410	80.00	---	for motor vehicles
		8407.3420	22.00	---	for tractors
		8407.3490	21.00	---	other
8407.9000	0.00	8407.90		-	other engines

6 Expected effects of the reform⁴⁴

6.1 Effects on government revenue

According to the Federal Council's 2019 dispatch, the abolition of industrial tariffs was expected to result in a reduction of tariff revenue in the order of CHF 541 million, based on tariff revenue in 2018. According to the 2022 figures, the reduction in gross tariff revenue would amount to CHF 681.7 million. The net reduction would be slightly lower, expected to be around CHF 600 million. The

44 This section is largely based on BUNDESRAT (2019, Chapter 6, pp. 8495ff).

difference is due to refunds.⁴⁵ The loss of tariff revenue on industrial products would thus amount to around 0.7% of total federal revenue. Slightly lower revenues would also result from value-added tax (VAT) and automobile tax, as these taxes are levied not only on the value of goods but also on ancillary costs, including customs duties paid. Accordingly, the Federal Council's dispatch assumed an annual revenue loss of around CHF 21 million (VAT) and around CHF 0.5 million (automobile tax) due to the lower tax base.

These revenue losses have to be set against possible revenue gains from the stimulation of economic activity that is likely to result from the abolition of industrial tariffs. A model simulation in this respect suggested that the additional economic activity generated would lead to higher tax revenues. According to the estimates for the aggregate state budget at the time, about 30% of the lost customs revenue was expected to be compensated in the medium term. It was assumed that slightly more than half of the additional revenue would go to the federal government and slightly less than half to the cantons and municipalities.

6.2 Expected tariff savings

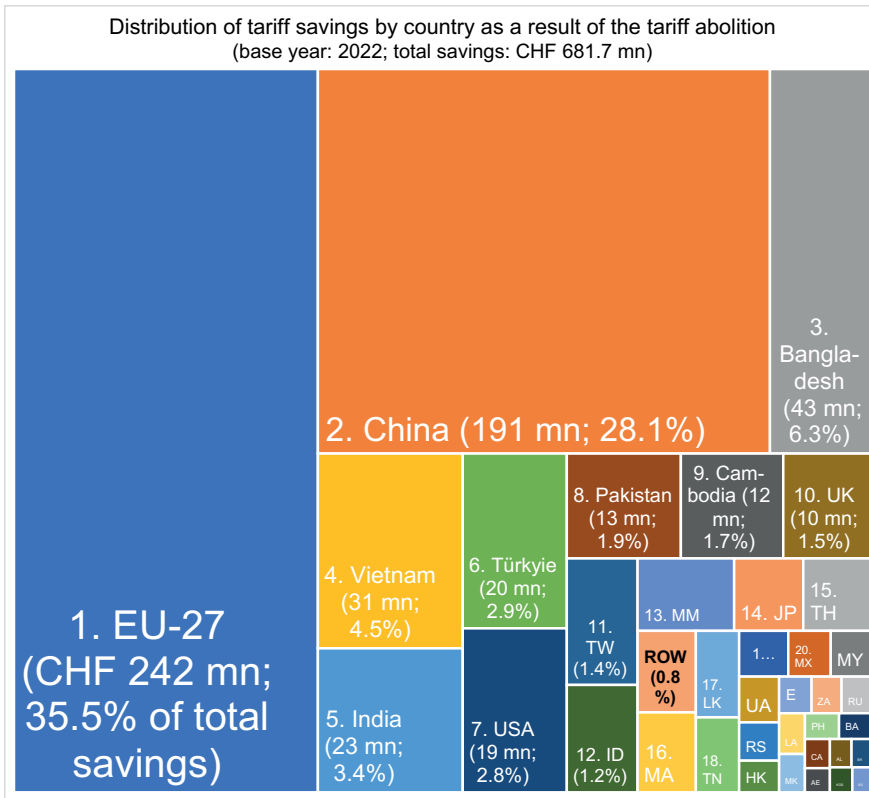
As mentioned above, Switzerland's unilateral elimination of tariffs on industrial goods will result in gross tariff savings of CHF 681.7 million (basis: 2022). Interestingly, almost three quarters of these savings will be realized on imports from FTA partner countries (CHF 505.5 million, or 74.2% of the total savings). This figure is surprising at first sight, as one would have expected the FTA partner countries to have already realized such savings thanks to preferential treatment. However, as noted above, in some cases the obstacle of rules of origin and related procedures, or the cost of complying with them, prevents traders from realizing tariff savings under FTAs.

The same holds for imports from GSP beneficiary countries. Accordingly, this group will account for a further CHF 145.8 million in tariff savings (21.4% of the total). Apart from the rules of origin, another reason for the substantial tariff savings of this group as a result of the abolition of Swiss industrial tariffs is that certain textile imports have so far been partially excluded from the Swiss GSP and Swiss tariffs on these products have remained relatively high. As several GSP beneficiary countries have a strong export position in textiles, these countries stand to gain considerably. For example, tariff savings on imports from Bangladesh will amount to CHF 42.7 million. This is much higher than the savings that generally more important trade partners such as Italy (CHF 26.2 million) or France (CHF

⁴⁵ Such refunds are made in processing traffic (in accordance with Art. 12 of the Customs Act, SR 631.0) or in situations such as double customs clearance, foreign returned goods, and so on.

13.8 million) may expect (based on 2022 data). The tariff savings on imports from Bangladesh will also be higher than the savings on imports from the United States (CHF 18.8 million), even though the United States is one of Switzerland's largest trading partners and, at the same time, the most important trading partner with which Switzerland has no FTA and whose exports to Switzerland are therefore still subject to the normal MFN tariffs. Figure 7 shows the distribution of gross tariff savings by trading partner.

Figure 7: Distribution of gross tariff savings by trading partner



Data source: Swiss Impex database

6.3 Administrative facilitations

In addition to the fiscal relief, the abolition of industrial tariffs is expected to reduce the administrative burden on companies. The import clearance of a

product requires a number of administrative procedures, such as the customs declaration, the selection of the appropriate customs procedure, the import procedure itself, the payment of the customs debt and the archiving of all the necessary documents. Although these procedures will in principle remain in place after the abolition of industrial tariffs, the administrative relief resulting from the reform has been estimated at CHF 100 million for 2016, which represents 20% of the total administrative burden measured for customs clearance (MEIER and FREY, 2017; 2018). As several aspects have not been taken into account in this estimate,⁴⁶ this CHF 100 million is considered to be the lower limit of the administrative relief expected from the abolition of industrial tariffs.

The administrative burden on imports is significantly higher when proofs of origin are required or when preferential customs clearance is used under an FTA or the GSP (see Box 1 on rules of origin). The unilateral abolition of industrial tariffs will therefore free companies from paperwork and give them more flexibility in their sourcing decisions, as the origin of a product will no longer be relevant⁴⁷ for imports of industrial products remaining in Switzerland. However, the rules of origin will remain relevant if the imported products are to be processed in Switzerland with the benefit of cumulation of origin before being re-exported to another country under the preferential terms of an FTA. In such cases, the origin of inputs and the associated documentation requirements remain relevant. Proofs of origin will also continue to be required for unaltered re-exports, for example, imports from the European Union as originating goods that are later re-sold to the European Union.

⁴⁶ These include the time and effort for choosing the right procedure, the risk of errors, fines, staff training and reduced flexibility in purchasing goods.

⁴⁷ These facilitations will also apply to other special procedures which allow duty-free importation of goods but are subject to additional obligations. These include provisional assessment due to missing or invalid proofs of origin, inward and outward processing, customs concessions as well as the special procedure for temporary admission and customs relief depending on the intended use. For details, see BUNDESRAT (2019, p. 8504).

Box 1: Rules of origin

FTA preferences apply only to products of origin of contracting parties. Similarly, GSP preferences apply only to products of origin from GSP beneficiary countries. In order to benefit from preferential treatment, importers must prove that their products are of preferential origin and comply with the so-called rules of origin. These rules are laid down in each individual FTA or in the Ordinance on the rules of origin for tariff preferences in favor of developing countries (GSP). Their purpose is to prevent goods from third countries from being imported under preferential conditions via an FTA partner or a GSP-eligible developing country without having undergone substantial processing or value added in the partner country.

The decisive criterion for "origin" is usually the degree of processing of a product in the country of origin. The degree of processing required for a product is determined on the basis of different types of rules. A commonly used rule is the tariff heading change rule, according to which processing is considered sufficient if the processed product falls under a different tariff heading than its components. Alternatively, modern FTAs often require that a certain share of value added or specific processing steps take place in the country of origin. The preferential origin is documented by a proof of origin. In order to benefit from the tariff preferences, this proof must be issued by the supplier and presented upon importation into Switzerland. It must be archived for five years and be available at any time upon request by the Federal Office for Customs and Border Security (FOCBS).

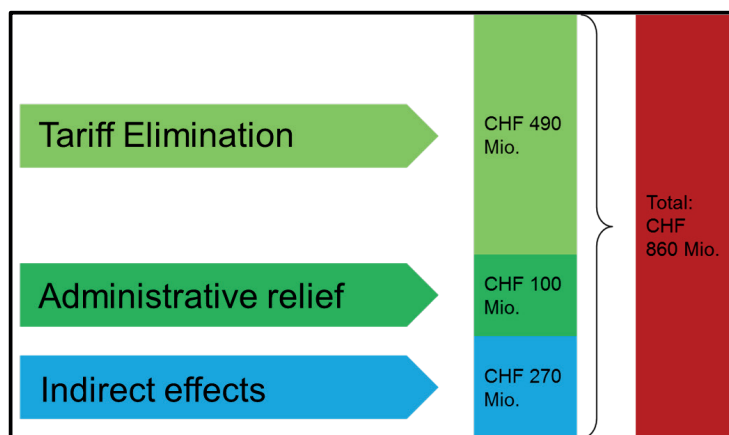
Given the administrative requirements associated with rules of origin, some firms may choose to forgo preferential treatment and pay tariffs, particularly in sectors where tariffs are lower than the cost of complying with rules of origin. Rules of origin may also contribute to the problem of trade diversion generally associated with FTAs (see Section 2.1): They may induce firms to source their inputs not from the most efficient supplier but from a less efficient supplier located in a country of origin that allows the producer to claim preferential origin when re-exporting the finished products, including through so-called cumulation of origin.

6.4 Expected economic effects

On behalf of the Federal Council, ECOPLAN (2017) conducted a model simulation to provide a quantitative assessment of the macroeconomic impacts.

Based on figures for 2016, the estimates resulted in savings of CHF 490 million due to the abolition of customs duties and administrative relief of CHF 100 million (about one fifth of the total administrative expenditure of companies related to customs clearance). Due to additional indirect effects (e.g., productivity gains), the macroeconomic impact was expected at the time to exceed the direct savings by CHF 270 million. In total, the positive impact on the economy was expected to amount to CHF 860 million (see Figure 8). The actual impact is likely to be higher as the amount of industrial tariffs that will be abolished has increased in the meantime. In addition, the estimates on administrative relief did not take into account any cost savings resulting from the simplification of the tariff code.

Figure 8: Economic effects of the elimination of customs duties



Specifically, the study found a slight increase in GDP (estimated at +0.1%) and higher incomes as a result of the unilateral abolition of Swiss industrial tariffs. The savings in tariffs and administrative costs should lead to lower trade and production costs. These savings are expected to benefit firms and – assuming competition is functioning – private individuals, rather than accruing to the state as tariff revenue. Thus, there is a shift in rents. In addition, the administrative relief is expected to generate additional, indirect welfare effects through efficiency gains. The administrative relief will not only benefit importing firms in Switzerland, but also foreign exporters due to the (at least partial) elimination

of origin requirements. For the latter, the strategic choice of suppliers or supplier countries to avoid import duties will become less relevant. As a result, trade relations are expected to become more efficient, which should have a positive impact on productivity and innovation. GDP per capita is estimated to increase by around +0.1 %. The lowering of barriers to entry into the Swiss market is also expected to increase imports by 0.5 %, which in turn will intensify competition in the Swiss market.

Overall, the efficiency gains and increased competition should strengthen the competitiveness of the Swiss economy. This effect is particularly important as the Swiss economy is highly integrated into global value chains. Companies are therefore dependent on imported raw materials or semi-finished products. The abolition of industrial tariffs therefore strengthens export competitiveness and is expected to increase exports by 0.4%.

Box 2: Economic studies accompanying the project

In the run-up to the project, a number of external studies were commissioned on the main issues.⁴⁸ These include MEIER and FREY (2017), which examined the reduction of administrative burdens resulting from a unilateral abolition of customs duties, in particular with regard to reduced compliance requirements for rules of origin.⁴⁹ The study by ECOPLAN (2017), the results of which are reported in more detail in this section, estimated the total economic impact measured for 2016 at CHF 860 million.⁵⁰ BERDEN et al. (2017) examined the extent to which Switzerland's bargaining position in future negotiations with potential partners would be impaired because industrial tariffs would no longer be a bargaining chip. They concluded that alternative concessions would be possible and that FTAs would still allow future FTA partners to obtain a guarantee of duty-free treatment of imports.⁵¹ MAHLSTEIN et al. (2017) analyzed the experiences of other countries with unilateral tariff reductions that confirmed the positive economic effects of tariff dismantling.⁵² Further studies have been conducted on the role and impact of non-tariff barriers,⁵³ as well as on the potential for action on high agricultural prices.⁵⁴

48 For a brief overview of the studies and their main findings, see MÜLLER (2018).

49 For detailed results, see MEIER and FREY (2017); for a brief summary, see MEIER and FREY (2018).

50 For detailed results, see ECOPLAN (2017); for a brief summary, see MÜLLER and STEINMANN (2018). For an earlier analysis, see MOSER and WERNER (2015).

51 For detailed results, see BERDEN et al. (2017); for a brief summary, see BERDEN et al. (2018).

52 For detailed results, see MAHLSTEIN et al. (2017); for a brief summary, see SCHROPP and MAHLSTEIN (2018).

53 See MEYER ET AL. (2017), MEYER-LANZ and LANGHART (2018), MOSER and NICKLISCH (2017) and MOSER and NICKLISCH (2018).

54 For detailed results, see CHAVAZ et al. (2017); for a brief summary, see CHAVAZ and PIDOUX (2018).

The abolition of industrial tariffs is also expected to lead to lower import prices, reinforced by administrative relief and increased competition. The price effects are expected to be passed on to consumers under the assumption of functioning competition. The simulation model used took into account different levels of competition in different sectors. The estimates resulted in a decrease in general consumer prices for goods of between -0.1% and -2.6%, depending on the product group. For the aggregate consumer price level, a decrease of 0.1% was assumed. According to the model, this relatively small reduction is due to a parallel slight increase in prices of services and agricultural products and food, as productivity and aggregate demand rise. Extrapolated on the basis of nominal household consumption expenditure in 2016, this fall in prices would result in savings of CHF 350 million for consumers.

6.5 Effects on the administration

The measure is expected to enable the FOCBS to reduce its expenditure on preferential clearances and special procedures, as importers will increasingly switch to normal customs clearance, thus reducing the expenditure on providing information, authorizations, controls and verification procedures related to proofs of origin. The savings achieved will be used to maintain and strengthen border security.

Further simplifications will result from the abolition of temporary tariff suspensions in the textile sector and the abolition of the Expert Commission for Customs Tariff Matters. At the same time, some resources have been required for the one-off amendments of ordinances and adjustments to the tariff structure in internal systems, for outreach and information activities related to implementation, and for monitoring the impact on prices. These implementation issues are discussed in more detail in Section 9.

6.6 Effects on future trade negotiations

Industrial tariffs are part of the bargaining mass in FTA negotiations. However, the weight of industrial tariffs within the portfolio of possible concessions has steadily decreased over time, given the increasing breadth of modern FTAs and

the already low level of MFN industrial tariffs in the case of Switzerland (but not only).⁵⁵

Switzerland's recent negotiating experience suggests that industrial tariffs are no longer a decisive bargaining chip in most FTA negotiations. Other factors such as agricultural tariffs, services, non-tariff barriers, intellectual property, investment or sustainability are becoming increasingly important. Moreover, since Switzerland has so far always committed itself to reducing preferential import tariffs for all industrial products to zero immediately and without transition periods, the loss of this bargaining chip affects the negotiation of new FTAs rather than the modernization of existing agreements. Moreover, as shown in Section 6.2, 74.2% of the savings from the unilateral abolition of industrial tariffs will be realized on imports from countries with which an FTA already exists. In other words, three quarters of the industrial tariffs collected have no transactional role as bargaining chips in trade negotiations.

Furthermore, and importantly, this unilateral dismantling of industrial tariffs does not lead to an adjustment of bound tariffs in the WTO (see above). Switzerland could therefore legally reintroduce tariffs on industrial products for non-free trade partners up to the maximum tariffs possible under WTO commitments. As a result, the additional legal certainty that trading partners can obtain through tariff bindings in the context of FTAs remains a bargaining chip and an incentive for both new and existing trading partners to enter into or maintain free trade relations with Switzerland. In principle, the situation in the industrial tariff area will now be similar to the situation in other FTA chapters (e.g., services) where trading partners mainly bind their status quo, often without creating additional market access.

These considerations are supported by a study by the World Trade Institute (BERDEN et al., 2017). According to this study, industrial tariffs are no longer the focus of interest for the majority of important potential negotiating partners (in 2018, 89% of imports of industrial products came from countries with which Switzerland has concluded an FTA). According to the study, the greatest challenge would be to negotiate with partners whose priority lies primarily in exporting textile products. The examples of other countries, such as Hong Kong, Canada, New Zealand, Norway and Singapore, also show that new FTAs can be successfully concluded even after the unilateral elimination of industrial tariffs (SCHROPP and MAHLSTEIN, 2018).

⁵⁵ There is a general trend towards lower MFN tariffs. According to SNOUSSI-MIMOUNI and DREVINSKAS (2023), the simple average MFN tariff applied by WTO members has fallen by 44%, from 13.2% to 7.4%, between 1996 and 2021. Over the same period, the average MFN tariff applied on a trade-weighted basis dropped by 47%, from 7.1% to 3.7%.

The relevance of the negotiating mass argument also depends on the pipeline of economically meaningful and politically realistic FTAs that could be negotiated in the future. Let us therefore take a brief look at the few major economies with which Switzerland still has MFN trade relations on both the import and export side: Australia, New Zealand, Russia, Taiwan and the United States. From this list, the United States is by far the most important Swiss trading partner. Switzerland has twice explored the possibility of an FTA with the United States, in 2005/2006 and again since 2018.⁵⁶ However, a Swiss-US FTA seems unlikely in the near future given the fundamental divergences in agricultural trade policy and the general lack of interest of the current US administration in concluding classical FTAs. Divergences in agricultural trade policy could also hamper potential FTAs with Australia and New Zealand, where no negotiations are currently underway. With Russia (where negotiations started in 2011 and were suspended in 2014 following Russia's annexation of Crimea),⁵⁷ there is no prospect of a resumption in the near future, given recent international developments. An FTA with Taiwan also seems unlikely for other reasons.⁵⁸

If we extend the analysis to important developing countries that benefit from the GSP when exporting to Switzerland, but for which Switzerland does not enjoy comparable preferences when exporting to them, FTA negotiations have been underway for a long time. This is the case for India (negotiations started in 2008), Vietnam (2012), Malaysia (2014) or Mercosur (2017).⁵⁹ The length of these negotiations reflects the increasing difficulty of concluding FTAs with significant partners that are acceptable both to the partner and an increasingly critical domestic public. The Swiss negotiating position includes strong offensive interests in intellectual property protection and sustainability and strong defensive interests in agriculture – a combination that is difficult for several potential FTA partners to accept. Moreover, the challenge of domestic acceptance of FTAs was illustrated by the narrow margin by which the FTA with Indonesia was approved in the referendum on 7 March 2021 (51.7% approval rate),⁶⁰ despite support from most parties and stakeholders. Add to this a general global climate in which, for a variety of reasons, the trend towards new FTAs is slowing down.

These considerations suggest that the pipeline of economically meaningful and politically realistic FTAs is gradually emptying. Against this background, it would

56 On this subject, see the Motion Graber 18.3797 on a possible FTA between Switzerland and the U.S (<https://www.parlament.ch/de/ratsbetrieb/suche-curia-vista/geschaefft?AffairId=20183797>).

57 See the Federal Council's response to the Motion Freysinger 15.3626 on an FTA with Russia (<https://www.parlament.ch/de/ratsbetrieb/suche-curia-vista/geschaefft?AffairId=20153626>).

58 See the Federal Council's response to the Interpellation Imark 20.3983 on a trade agreement with Taiwan (<https://www.parlament.ch/de/ratsbetrieb/suche-curia-vista/geschaefft?AffairId=20203983>).

59 See Section 11.2 in the Annex to Bundesrat (2023a) for the status of FTA negotiations.

60 See <https://www.bk.admin.ch/ch/d/pore/va/20210307/det640.html>.

be difficult to argue in favor of Switzerland maintaining its industrial tariffs and the resulting fiscal and administrative burdens on its economy just to maintain a bargaining chip for possible future FTA negotiations.

6.7 Preference erosion

One issue mentioned in the Federal Council's dispatch, which was also part of the international reaction to the reform (see Section 8), was the question of "preference erosion" (BUNDESRAT, 2019, p. 8499) – i.e., the comparative loss of competitive advantage of countries currently exporting to Switzerland under the preferential terms of an FTA or the GSP compared to third countries previously subject to MFN tariffs that would now be abolished.

From the point of view of countries that used to export to Switzerland under preferential conditions, the reform may indeed lead to some loss of a preferential margin. However, this does not mean that preferential trading partners will lose out as a result of the reform. In fact, if we look at the figures on who will benefit, the opposite seems to be true: almost three-quarters of industrial tariffs are levied today on imports from partners with which an FTA already exists. As a result, the latter will benefit most from the reform (see Section 6.2). In addition, their exporters will be partially freed from rules of origin requirements and the associated administrative costs and sourcing restrictions.⁶¹ In addition, Swiss MFN tariffs on industrial products are generally low, so that significant shifts in competitive positions or market shares due to unilateral tariff elimination seem rather unlikely. At best, such shifts could affect products that were previously subject to both relatively high MFN tariffs and exceptions or limitations to GSP preferences (e.g., certain textiles).

From the Swiss perspective, any preference erosion resulting from the reform is equivalent to the elimination of welfare-reducing trade diversion in Vinerian terms (see the discussion in Section 2.1) and is therefore economically positive.

7 The (tortuous) road to parliamentary approval

Section 7 documents the domestic parliamentary discussion and decision-making process through which the project passed. It is aimed at readers who are interested

61 This applies to exports of products that will definitely remain in Switzerland. Proofs of origin will continue to be required for exports of inputs used in Switzerland to manufacture products that are subsequently exported under FTAs (see Section 6.3).

in the domestic approval processes of such a reform using the specific example of Switzerland.

7.1 Brief overview of the political process in Switzerland

After the dispatch containing the legislative proposal for the unilateral abolition of Swiss industrial tariffs was approved by the Federal Council and submitted to Parliament on 27 November 2019, a long (and rather tortuous) journey through the multi-stage parliamentary approval process began. For a general overview of the Swiss parliamentary process, see Box 3).⁶²

Box 3: Basic functioning of the Swiss parliamentary process:
Simplified overview⁶³

Legislative proposals are usually submitted to Parliament by the Federal Council – the executive branch of the Swiss government – in the form of a dispatch. The Swiss Parliament, also known as the Federal Assembly, consists of two chambers with equal powers. The National Council has 200 seats, allocated to the cantons according to population, while the Council of States has 46 members (two elected by each canton, large and small, and one by each of the six historic half-cantons). The Federal Assembly meets in plenary session four times a year (spring, summer, autumn and winter sessions), each session lasting three weeks. The short sessions allow Swiss parliamentarians to exercise their political functions on a part-time basis and alongside other activities (as entrepreneurs, lawyers, doctors, employees, etc.), which is perfectly legitimate in the Swiss system.

⁶² For an overview of the process of this matter (registered under No. 19.076), see <https://www.parlament.ch/de/ratsbetrieb/suche-curia-vista/geschaefte?AffairId=20190076>.

⁶³ More detailed information on parliamentary procedure in Switzerland is available in all Swiss national languages and in English in the “Lexicon of parliamentary terms” on the website of the Swiss Parliament at <https://www.parlament.ch/en/%C3%BCber-das-parlament/parlamentsw%C3%B6rterbuch>.

Box 3: contd.

Each of the two chambers has several specialized committees for different policy areas. They examine a legislative proposal before it is put to the vote in the plenary session of a chamber. Committee meetings take place between plenary sessions. In the case of the abolition of industrial tariffs, the relevant parliamentary committees are the Economic Affairs and Taxation Committees of the National Council (EATC-N) and the Council of States (EATC-S). Unlike plenary sessions, which are open to the public, committee meetings are confidential. However, the committees usually issue media releases on their meetings, summarizing important debates.

The parliamentary course of a legislative proposal usually begins in the specialized committee of the Council to which the project is first assigned by decision of the Council Presidents (so-called first Council). The proposal is then submitted to the plenary of the first Council for approval. It is then discussed in the specialized committee of the second Council before being submitted to the plenary of the second Council for approval. The parliamentary approval process in each Council normally consists of three elements: (1) the introductory debate (where a Council decides whether there is a need for legislative action at all); (2) the detailed consideration of a bill (which follows the decision to introduce it) where a bill is discussed article by article; and (3) the vote on the bill in its entirety. The legislative process is completed when both Councils have accepted (or rejected) a legislative proposal. If the two Councils disagree, they must follow a procedure for resolving their differences.

Once a bill has been passed by both Councils, a 100-day referendum period usually begins, during which any voter who opposes the bill can collect signatures to put it to a public referendum. Fifty thousand voter signatures are required to trigger a referendum. If the 100-day referendum period expires unused, a bill is considered to have been definitively passed.

7.2 Debate in the EATC-N on 25 February 2020

The first committee to discuss the matter was the Economic Affairs and Taxation Committee of the National Council (EATC-N) on 25 February 2020. Following the debate, the committee proposed by 12 votes to 11 with one abstention that the Federal Council's proposal to abolish industrial tariffs should not be adopted (WAK-N, 2020).

According to the narrow majority that rejected the proposal, the risks associated with the proposal were too great and the benefits for the economy and consumers too small. According to the committee's media release, the majority felt that it would be inappropriate to withdraw such a large sum from the federal coffers. The majority also felt that the project had other serious disadvantages: Switzerland would lose bargaining power in the negotiation of new FTAs and pressure on agricultural tariffs would increase massively as a result. Moreover, it was doubtful whether consumers would actually benefit from lower prices, as tariff reductions would often only increase the margin for trade.

However, a strong minority of the EATC-N proposed to accept the bill. They were convinced that the abolition of industrial tariffs would strengthen Switzerland as a business location and the competitiveness of Swiss companies. They argued that there had been pressure on agricultural tariffs for years, independently of the discussion on industrial tariffs. In particular, the minority emphasized the administrative relief that the measure would bring and the benefits for consumers.

7.3 Debate in the plenary session of the National Council on 4 June 2020

The rejection of the legislative proposal by the EATC-N did not bode well for the subsequent debate in the plenary session of the National Council. Indeed, the plenary session followed the majority of the EATC-N and rejected the legislative proposal by a majority of 108 votes to 83, with four abstentions.⁶⁴

Opponents rejected the proposal because of the fiscal losses to the central government budget – particularly in light of the additional burden of the now emerging Covid-19 pandemic and the costs of other fiscal reforms. They cited what they considered to be a relatively small contribution to growth and price reductions, according to studies, and the loss of negotiating mass in future FTA negotiations. They were also concerned that tariff reductions would be used to increase sellers' margins rather than being passed on to consumers and other end users. It was also argued that the administrative relief would be limited, as certificates of origin would still be required in many cases. Still others criticized the fact that the abolition of tariffs was not limited to “sustainable” products.

The minority in favor of the bill reiterated the arguments put forward in the Federal Council's dispatch. They emphasized the fiscal and administrative relief for economic operators (which had become particularly necessary in view of the

⁶⁴ A full transcript of the debate is available at <https://www.parlament.ch/de/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=49015>. The results of the nominal vote are available at https://www.parlament.ch/poly/Abstimmung/51/out/vote_51_20436.pdf.

economic difficulties caused by the pandemic). In their view, the already low industrial tariffs, which are mostly levied on imports from FTA partner countries, were hardly an indispensable bargaining chip in FTA negotiations, which nowadays cover much more than tariffs.

7.4 Debate in the EATC-S on 21 August 2020

The rejection of the bill by both the EATC-N and the plenary of the first chamber, the National Council, cast a shadow over the subsequent deliberations in the Council of States. And indeed, the series of defeats for this legislative proposal continued: on 21 August 2020, after an in-depth discussion, the EATC-S proposed by six votes to six, with the President casting the deciding vote, that the legislative proposal not be adopted. The arguments of both proponents and opponents were largely the same as in previous debates (WAK-S, 2020).

7.5 Debate in the plenary session of the Council of States on 23 September 2020

After the defeat in the National Council and in the EATC-S, the debate in the plenary session of the Council of States was the last chance of survival for this legislative proposal: If the plenary session of the Council of States had followed the proposal of the EATC-S and refused to enter into the introductory debate as well, the project would have definitely been killed. However, the plenary of the Council of States decided, after a detailed discussion, to enter into introduction. With 29 votes in favor and 14 against (with no abstentions), a fairly large majority supported the project. The plenary then instructed the EATC-S to examine the legislative proposal in detail.⁶⁵

7.6 Debate in the EATC-S on 19 November 2020

After the Council of States had approved the introduction of the bill, the EATC-S took up the detailed debate and also supported the Federal Council's position. In its overall vote, the EATC-S approved the bill by 8 votes to 5 (WAK-S, 2020a). The matter was now ready to be debated again in the plenary session of the Council of States.

⁶⁵ The transcript of the discussion is available at <https://www.parlament.ch/de/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=50292#votum13>.

7.7 Debate in the plenary session of the Council of States on 2 December 2020

Shortly after the EATC-S approved the bill, the plenary session of the Council of States debated the bill again.⁶⁶ The arguments for and against the bill were largely unchanged from previous discussions. In the end, the Council of States approved the bill by 28 votes to 14, with one abstention.⁶⁷

7.8 Debate in the EATC-N on 11 January 2021

Following its adoption by the Council of States, the Federal Council's legislative proposal was returned to the National Council and the EATC-N. After their initial rejection, they had to deal with the proposal again in accordance with parliamentary procedures.

The EATC-N dealt with the matter on 11 January 2021. Not least because of the loss of revenue for the Confederation, the EATC-N now asked for more precise information on whether a better economic leverage effect could be achieved by abolishing only some of the industrial tariffs, e.g. the tariffs on raw materials and semi-finished products. The Commission also requested more information from the administration on other issues, including the introduction of a border tax adjustment system (in light of EU plans for a Carbon Border Adjustment Mechanism, or CBAM) before continuing the consultation (WAK-N, 2021).

7.9 Debate in the EATC-N on 18 May 2021

At its meeting on 18 May 2021, the EATC-N abandoned its initial opposition to the project. It proposed to approve the legislative proposal by 16 votes to 7 and to approve it unchanged by 15 votes to 7 with one abstention. For the majority, the economic benefits of the bill clearly outweighed the disadvantages. It rejected both a suspension (by 14 votes to 7, with two abstentions) and a referral back to the Federal Council, which would have been asked to propose a customs duty exemption for industrial goods according to sustainability criteria (rejected by 13 votes to 8 with one abstention). A motion for a staged abolition of industrial tariffs was also rejected (9 in favor, 14 against), but it would be submitted to the plenary session of the National Council as a minority motion. At the same meeting, the

⁶⁶ The transcript of the discussion is available at <https://www.parlament.ch/de/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=50866>.

⁶⁷ The results of the vote are available at https://www.parlament.ch/poly/AbstimmungSR/51/out/Abstimmung_51_4008.pdf.

committee decided by 11 votes to 5 with 7 abstentions to support a committee motion (21.3602) calling for the participation of Switzerland in the planned EU CBAM. Although the majority did not see a direct link between the abolition of industrial tariffs and this request, they nevertheless supported this committee motion independently (WAK-N, 2021a). The matter was now ready for debate in the plenary session of the National Council at the forthcoming session.

7.10 Debate in the plenary session of the National Council on 31 May 2021

The matter was originally on the agenda on Tuesday, 1 June 2021. However, on Monday, 31 May 2021, the Office of the National Council decided at short notice to cancel this item and to postpone it to the autumn session of 2021. A motion of order, asking to reinstate this item on the agenda for 1 June 2021, failed.⁶⁸ The brief debate on this motion suggests that the reason for the postponement was a (political) link that the Green-Liberal Party in particular made between the abolition of industrial tariffs and the introduction of a CBAM.⁶⁹

7.11 Debate in the EATC-N on 7 September 2021

The postponement of the matter to the autumn session created new delays and thus a new opportunity for the EATC-N to revisit the issue. After intense discussions, it narrowly stuck to its earlier motion in favor of a complete dismantling of industrial tariffs in one step.

During the discussion, the Commission had returned to the question of whether a staged abolition of industrial tariffs would be the better way forward. It discussed a proposal to abolish customs duties on industrial raw materials and semi-finished products only in a first step and to provide for the abolition of the remaining industrial customs duties in a second step, provided that federal finances allowed this and on condition that an evaluation by the Federal Council showed that the cost-benefit ratio of the first step was positive.

By 13 votes to 12, the Commission stuck to its original proposal of 18 May 2021 (see Section 7.9) to completely abolish industrial tariffs in a single step. For this majority, the structure of the customs tariff did not allow a clear separation between raw materials and semi-finished products on the one hand and industrial products on the other. A gradual abolition would therefore lead to unequal

⁶⁸ See https://www.parlament.ch/poly/Abstimmung/51/out/vote_51_22928.pdf.

⁶⁹ See <https://www.parlament.ch/de/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=52880>.

treatment, distortions and bureaucratic burdens instead of administrative relief for companies. In the view of the minority, a staged abolition of industrial tariffs would be appropriate not only in view of the tight federal finances but also in view of the leverage effect of the bill: the cost-benefit ratio of the first stage would be considerably higher than that of the – possible – second stage. Another minority did not want to leave the assessment of whether the cost-benefit ratio of the first stage was positive to the Federal Council alone. It supported only the first stage and wanted the Federal Council to submit a new dispatch to parliament at a later date if it decided to proceed with the second stage (WAK-N, 2021b).

7.12 Debate in the plenary session of the National Council on 15 September 2021

On 15 September 2021, the long-awaited debate took place in the plenary session of the National Council. There were three proposals on the table: (1) the majority's proposal to enter into introduction and accept the Federal Council's proposal as it stood); (2) the proposal of a minority not to enter into introduction (i.e., reject the Federal Council's proposal); and (3) another minority proposal which would have instructed the Federal Council to differentiate the duty exemption for industrial goods according to sustainability criteria. Only products with low CO₂ emissions and products for which high minimum ecological standards have been set in accordance with the Federal Environmental Protection Act would have been exempt from industrial tariffs.

After a lengthy debate,⁷⁰ the National Council voted by 121 votes to 69 (with four abstentions) in favor of the Committee Majority to enter into introduction.⁷¹ It then rejected the minority proposal to differentiate industrial goods according to sustainability criteria, with 87 votes in favor and 108 votes against (no abstentions).⁷² With these decisions, the matter was now ripe for a vote on the bill in detail.

A majority proposed to adopt the bill as proposed by the Federal Council and already accepted by the Council of States. A minority (Minority I) proposed to limit the elimination of tariffs in a first step to raw materials and semi-finished products (thus excluding finished products and consumer goods from tariff elimination) and to authorize the Federal Council to eliminate the remaining industrial tariffs in a second step, subject to certain criteria and conditions. Another minority

70 The transcript is available at <https://www.parlament.ch/de/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=53915>.

71 See https://www.parlament.ch/poly/Abstimmung/51/out/vote_51_23493.pdf.

72 See https://www.parlament.ch/poly/Abstimmung/51/out/vote_51_23494.pdf.

(Minority II) also proposed the staged approach, but – in contrast to Minority I – would have required the Federal Council to submit a new bill to Parliament for the subsequent elimination of the remaining tariffs.

The President of the National Council decided to hold a vote first to see which of the two minority proposals had more support. Then, the winning minority proposal and the majority proposal would be put to the vote. In the first of the two votes, Minority I prevailed over Minority II by 112 votes to 83 (with no abstentions).⁷³ The second vote resulted in a tie, with both Majority and Minority I receiving 97 votes.⁷⁴ In such a scenario, the President of the National Council (who normally abstains) also casts his vote (the so-called “casting vote”). As the President of the National Council voted in favor of the majority, the latter won by a narrow margin. In the concluding vote on the bill in its entirety, the bill was adopted by a clear majority of 106 votes in favor and 75 against (with 15 abstentions).⁷⁵

7.13 Final vote in both Councils on 1 October 2021

According to parliamentary rules, a so-called final vote on a bill is held in each Council after both Councils have completed their examination of a legislative proposal. The final vote usually takes place separately in each Council on the last day of the session. If both Councils approve the bill, it is considered to have been passed by the Federal Assembly. If one or both Councils reject the bill, it has not been passed.

On the morning of 1 October 2021, the final vote took place in both the National Council and the Council of States. The National Council adopted the bill by a majority of 109 votes in favor and 82 votes against (with five abstentions).⁷⁶ The Council of States adopted the bill by a majority of 29 votes in favor and 13 votes against (with two abstentions).⁷⁷

7.14 Referendum period

In accordance with Swiss institutional rules, the adoption of the revised Customs Tariff Act by Parliament triggered a 100-day referendum period. During this

73 See https://www.parlament.ch/poly/Abstimmung/51/out/vote_51_23496.pdf.

74 See https://www.parlament.ch/poly/Abstimmung/51/out/vote_51_23496.pdf.

75 See https://www.parlament.ch/poly/Abstimmung/51/out/vote_51_23497.pdf.

76 See https://www.parlament.ch/poly/Abstimmung/51/out/vote_51_23856.pdf.

77 See https://www.parlament.ch/poly/AbstimmungSR/51/out/Abstimmung_51_4709.pdf.

period, opponents of the measure could have called for a referendum. Although the Social Democratic Party (SP) publicly announced in a media release on 15 September 2021 that it would consider calling a referendum (SP, 2021), the 100-day referendum period expired without being used on 20 January 2022. The proposal had finally gone through the entire political process and had been adopted. It was now up to the Federal Council to decide on its entry into force and for the administration to work towards its implementation (see Section 9).

7.15 Review of the political process

As the account in this chapter shows, the political process to approve the measure was long and tortuous: after the project was almost dead following the EATC-S meeting on 21 August 2020, the plenary of the Council of States gave the project a new chance on 23 September 2020. However, given the strong opposition and the controversial debates in the National Council and its committee, the EATC-N, the success of the reform was far from guaranteed. The arguments exchanged during the debate, the close votes, the alternative proposals and the procedural delays confirm the findings of the political economy literature that unilateral trade liberalization is difficult to achieve in a purely domestic context.

A more detailed analysis of the votes, comparing the negative vote in the National Council Plenary on 4 June 2020 with the positive vote on 15 September 2021, shows that a shift in preferences of two parties in particular ultimately led to the adoption of the reform (see Table 3). While the parties on the left (the Socialdemocratic Party and the Green Party) had consistently opposed the project throughout the parliamentary process, both the Liberals and the Green-Liberals had (mostly) supported it. In contrast to these four parties, the Swiss People's Party and the Centre Party were split in the first vote, with roughly equal numbers of deputies from each group supporting and opposing the project. This changed in the second vote: the Swiss People's Party deputies now mostly joined the camp of supporters, while several Centre Group deputies who had voted against the measure in the first vote now either abstained or supported the project in the second vote.

Table 3: National Council votes on 4 June 2020 (top) and 15 September 2021 (bottom)

Group	In Favour	Against	Abstentions
Socialists	0	38	0
Green-Liberals	16	0	0
Swiss Peoples' Party	29	26	0
Liberals	23	0	3
Center	15	14	1
Green Party	0	30	0
<i>Total</i>	<i>83</i>	<i>108</i>	<i>4</i>

Group	In Favour	Against	Abstentions
Socialists	0	39	0
Green-Liberals	16	0	0
Swiss Peoples' Party	50	1	2
Liberals	29	0	0
Center	11	6	13
Green Party	0	29	0
<i>Total</i>	<i>106</i>	<i>75</i>	<i>15</i>

8 The international reception to the project

Although the decision to abolish industrial tariffs was taken autonomously, it naturally has international repercussions and is of interest to Switzerland's trading partners. Accordingly, Switzerland has informed its trading partners and international organizations on the project.

During the 2022 Trade Policy Review (TPR) of Switzerland and Liechtenstein at the WTO, Switzerland informed WTO members in its government report about the forthcoming abolition of tariffs on industrial goods.⁷⁸ The WTO Secretariat also briefly mentioned the issue in its report.⁷⁹ It was also mentioned in the opening statements during the TPR meetings on 18 and 20 May 2022.⁸⁰ During the

78 See WTO (2022), Section 1.4.1, No. 1.58 on page 13.

79 See WTO (2022a), Section 3.1.3.1, No. 3.20 on page 59.

80 See WTO (2022b), No. 2.15 (p. 5; opening statement by Switzerland).

discussion, several WTO members commended Switzerland for this measure.⁸¹ Other members took note of the policy change without passing judgment,⁸² or had questions about its implications, for example with regard to future FTA negotiations.⁸³ Some members questioned the limitation of liberalization to industrial products.⁸⁴ In addition, several written questions were submitted by members on the project. These questions also focused on the possible impact of the measures on future FTA negotiations, the erosion of preferences for existing FTA partners, the exclusion of agricultural products from the liberalization project and whether bound tariffs would also be eliminated.⁸⁵

In response to these questions, Switzerland informed members, inter alia, that no general reduction of tariffs on agricultural products was foreseen and that WTO bound tariffs (according to Switzerland's consolidated tariff schedules) would remain unchanged. Switzerland confirmed that its applied MFN tariffs on industrial goods would be set to zero for all imports from third countries and that no changes were foreseen in its FTAs as a result of the move. Switzerland added that its obligations under FTAs for duty-free treatment of industrial goods would remain relevant in order to ensure legal certainty for the users of these FTAs.

In addition to the WTO, other multilateral organizations have also taken note of the project. The OECD briefly mentioned the project in its Economic Survey 2022 for Switzerland.⁸⁶ The IMF also made a brief (and neutral) mention of the project in its latest Article IV Consultation Report.⁸⁷ The unilateral abolition of industrial tariffs was also a topic of discussion in bilateral fora such as the Joint Committee of the FTA between Switzerland and the European Union (SECO, 2023).

81 See WTO (2022b): Statements by Hong Kong, China (No. 4.44, p. 18), Canada (No. 4.52, p. 19), Israel (No. 4.109, p. 24), Thailand (No. 4.127, p. 26), China (No. 4.135, p. 27), Moldova (No. 4.336, p. 45), Sri Lanka (No. 4.434, p. 55), the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (No. 4.391, p. 51); statements by the Discussant (No. 5.30, p. 67) and by the Chairperson (No. 6.5, p. 73).

82 See WTO (2022b): Statements by the European Union (No. 4.146, p. 28) and Uruguay (No. 4.307, p. 43).

83 See WTO (2022b): Statement by the United States (No. 4.71, p. 22).

84 See WTO (2022b): Statements by New Zealand (No. 4.213, p. 34) and Paraguay (No. 4.459, p. 57).

85 See WTO (2022c): These include question No. 4 by the United States on the impact on FTA negotiations (p. 23); questions No. 1 and 2 by Israel on the rationale for the measures and whether there is an intention to liberalize agricultural trade as well (p. 40); questions No. 1 and 2 by Australia on why agricultural products have been excluded (p. 41); question No. 7 by Thailand on whether bound rates would also be eliminated (p. 47); questions No. 53, 54 and 55 (p. 98) by the Philippines on coverage, compliance requirements and any changes to customs clearance requirements; question No. 25 by Argentina (p. 109) on whether tariffs will be eliminated in one step or whether there will be a phase-in; questions No. 1 and 7 by New Zealand (pp. 110 and 112) on whether a similar measure has been considered for agricultural products; question No. 5 by the United Kingdom (p.132) on the implications for future FTA negotiations; question No. 1, 2 and 4 by Ukraine (pp. 152f) on remaining trade barriers after the abolition of industrial tariffs and plans to deepen preferential trade relations under existing FTAs; question No. 2 by Uruguay (p. 161) on whether tariff elimination is also planned for agricultural products; and question No. 9 and 10 by Ecuador (p. 166) on whether priority will be given to products originating from FTA partners and whether there is a mechanism to avoid preference erosion in trade with such partners.

86 See OECD (2022), p. 39 and table on p. 41.

87 See IMF (2023), p. 11; No. 38, p. 19, and No. 53 (p. 22).

Beyond international governmental organizations, business organizations have also taken note of the reform. The regional chamber of industry and commerce in neighboring southern Germany, for example, described the abolition of customs duties as “almost revolutionary” and praised the simplification of the customs tariff code as an important contribution to administrative simplification. It recommended that the European Union also consider both measures, arguing that the EU customs tariff was complex and inconsistent (INDUSTRIE- UND HANDELSKAMMER HOCHRHEIN-BODENSEE, undated).

9 Implementation

9.1 Decision on the date of entry into force

The law provided that the date of entry into force would be decided by the Federal Council. Accordingly, on 2 February 2022 – two weeks after the referendum period had lapsed – the Federal Council decided to bring the abolition of industrial tariffs into force on 1 January 2024.⁸⁸ On that date, import duties on all industrial products will be abolished. At the same date, the customs tariff for industrial products will be simplified. This date has been chosen in order to minimize the transition costs for economic operators and the administration and to give all players sufficient time to make the necessary technical and organizational adjustments.

However, in September 2022, press reports claimed that the Federal Council was considering postponing the entry into force to a later date in view of the deterioration of the Swiss central government’s finances (BINER and SCHÄFER, 2022), which had been adversely affected by the COVID-19 crisis. A little later, on 19 October 2022, a Federal Council report⁸⁹ also mentioned the possibility of postponing the entry into force as an option for balancing the budget and respecting the constitutional budget rules.⁹⁰

The emerging discussion about a possible postponement of the date of entry into force created uncertainty among the business community, which had prepared for a timely implementation, as well as among politicians. On 18 October 2022, Economiesuisse, an umbrella organization of Swiss business associations and companies, spoke out against such a delay (ECONOMIESUISSE, 2022). Other business

88 See BUNDES RAT (2022).

89 See BUNDES RAT (2022a), p. 11, Table 7.

90 Switzerland has a fiscal rule called the “debt brake” (in German: *Schuldenbremse*). It is enshrined in Art 126 of the Federal Constitution and is designed to avert (chronic) structural imbalances in federal finances. It links the annual ceiling for ordinary expenditure to the level of ordinary revenue (see https://www.efv.admin.ch/efv/en/home/themen/finanzpolitik_grundlagen/schuldenbremse.html).

associations were also reported to be concerned about a delayed implementation (SCHÖCHLI, 2022). On 7 November 2022, the EATC-S stated in a media release that it had noted with concern that the Federal Council was considering postponing the abolition of industrial tariffs. Referring to the preparatory work underway in companies, the EATC-S stated that a postponement would not only be contrary to legal certainty but would also deprive the economy of an important relief measure decided by Parliament. The EATC-S announced that it would therefore continue to lobby the Federal Council to stick to its decision of February 2022 (WAK-S, 2022).

On 25 January 2023, the Federal Council confirmed that the abolition of industrial tariffs would come into force on 1 January 2024 (BUNDESRAT, 2023), thus ending any speculation about a later date.

9.2 Adaptation of ordinances and databases

The timely implementation of the reform project on 1 January 2024 requires a number of administrative adjustments:

- Annex 1 of the Customs Tariff Act – the General Tariff – must be updated by a Federal Council ordinance. This ordinance contains these changes and sets the applied tariffs to zero for all tariff numbers affected by the reform.⁹¹ It was adopted on 15 February 2023 and will enter into force on 1 January 2024. The ordinance also repeals or amends certain other ordinances.⁹²
- In addition, the Swiss working tariff *Tares*⁹³ will be adapted in time for 1 January 2024.

91 “Verordnung über die Änderung des Zolltarifs in den Anhängen 1 und 2 zum Zolltarifgesetz und über die Anpassung von Erlassen im Zusammenhang mit dieser Änderung” ([https://www.bazg.admin.ch/dam/bazg/de/dokumente/verfahren-betrieb/grundlagen-und-wirtschaftsmassnahmen/zolltarif/tares/Verordnung%20%C3%BCber%20die%20%C3%84nderung%20des%20Zolltarifs%20vom%2015.%20Februar%202023%20\(IZA\).pdf.download.pdf/verordnung%C3%BCberdie%C3%A4nderungdeszolltarifs.pdf](https://www.bazg.admin.ch/dam/bazg/de/dokumente/verfahren-betrieb/grundlagen-und-wirtschaftsmassnahmen/zolltarif/tares/Verordnung%20%C3%BCber%20die%20%C3%84nderung%20des%20Zolltarifs%20vom%2015.%20Februar%202023%20(IZA).pdf.download.pdf/verordnung%C3%BCberdie%C3%A4nderungdeszolltarifs.pdf)).

92 The following instruments will be repealed: Ordinance of 17 February 1982 on the duty-free import of fabrics produced on hand looms (SR 632.115.01) and Ordinance of 3 December 1984 on the implementation of the GATT Agreement on Trade in Civil Aircraft (SR 632.231). The following instruments will be modified: Ordinance of 3 December 2021 on due diligence and transparency with regard to minerals and metals from conflict areas and child labor (SR 221.433); the Ordinance on the compulsory storage of fertilisers of 10 May 2017 (SR 531.215.25); the Tare Ordinance of 4 November 1987 (SR 632.13); the Free Trade Ordinance 2 of 27 June 1995 (SR 632.319); The Free Trade Ordinance 1 of 18 June 2008 (SR 632.421.0); the Ordinance on tariff preferences of 16 March 2007 (SR 632.911); the Ordinance of 12 November 1997 on the incentive tax on volatile organic compounds (SR 814.018); the Ordinance on rules of origin of 30 March 2011 (SR 946.39); and the Value Added Tax Ordinance of 27 November 2009 (SR 641.201).

93 *Tares* can be accessed via <https://xtares.admin.ch/tares>.

- The changes must also be implemented in the databases of the Federal Office for Customs and Border Security (FOCBS).

9.3 Information and outreach activities

The implementation of the project and its many technical implications naturally raise questions in the business community, which is involved in the day-to-day business of international trade. In order to meet their information needs, SECO and the FOCBS have undertaken various information and outreach activities. The FOCBS has restructured the Tares website. It is continuously adding new and updated information as well as downloadable datasets on technical aspects such as tariff simplification, concordance lists of tariff numbers, combined tariff and key structure, tariff structure and tariff numbers, key structures, statistical keys and customs facilitation.⁹⁴

In terms of outreach, SECO and the FOCBS published on the reform and participated in a number of seminars organized by business associations to help companies with the transition. In addition, SECO and FOCBS organized online information events for interested economic operators. By mid-November 2023, more than 1,700 representatives of Swiss and foreign companies and associations had taken part in these events. In addition, SECO has created a website with general information and frequently asked questions on the elimination of industrial tariffs.⁹⁵

9.4 Preparations towards a monitoring of price effects

One of the issues discussed since the public consultation is the extent to which cost advantages resulting from the abolition of industrial tariffs would be passed on to consumers. In view of this, the Federal Council has decided to carry out a monitoring exercise.

The pass-through of cost savings to consumers depends on several exogenous factors, such as market structure, inflation, economic developments and exchange rate movements. The more competition there is, the more likely it is that cost savings will be passed on to consumers. A related factor is the elasticity of demand,

⁹⁴ These documents are available on a special FOCBS website at https://www.bazg.admin.ch/bazg/de/home/services/services-firmen/services-firmen_einfuhr-ausfuhr-durchfuhr/zolltarif-tares/aufhebung-der-industriezoelle.html; see also BAZG (2023; 2023a; 2023b).

⁹⁵ See https://www.seco.admin.ch/seco/de/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/warenhandel/aufhebung_industriezoelle.html. For a brief presentation of the reform in German and French, see ZIMMERMANN (2023).

i.e., how sensitive consumers are to price changes. The higher the elasticity, the more companies have to pass on cost savings to avoid losing market share. Another exogenous factor is an increase in VAT from 7.7% to 8.1% (or from 2.5% to 2.6% and from 3.7% to 3.8% for reduced rates) on 1 January 2024, which is unrelated to the abolition of industrial tariffs. This VAT increase will lead to an increase in consumer prices if it is passed on to consumers. These opposing effects will make it difficult to measure the causal effects of price developments.

A feasibility study examining the best possible methodology for implementing such a monitoring was published in August 2023 (MEYER et al., 2023). Given the methodological challenges, a mix of methods has been proposed, including mainly a cross-country difference-in-differences approach combined with a comparison of price developments in reference countries and complementary methods such as business surveys, case studies and price data analyses. It is proposed to start the project when tariff abolition comes into force. A final report is expected by the end of 2025. Ideally, this monitoring will provide new insights into the functioning of competition in Switzerland.

9.5 Related actions and simplifications

The abolition of industrial tariffs will require a number of legal changes, but will ultimately lead to net deregulation. This will also allow the federal administration to abandon some tasks:

- **Abolition of temporary tariff suspensions in the textile sector:** The Swiss textile industry, which is now a highly specialized industrial sector, relies heavily on imported inputs for production. At the same time, Swiss tariffs in the textile sector have historically been much higher than in other sectors (a situation shared with many other countries) as a result of past demands for protection. The benefits of tariff protection have long since been reversed and have become a burden for the sector. At the request of the Swiss textile industry, a temporary reduction of tariffs on textiles was introduced for the first time in 2015 and lasted until 2019.⁹⁶ In 2019, at the request of the industry, the Federal Council renewed and expanded this temporary measure until 31 December 2023.⁹⁷ With the imminent abolition of all industrial tariffs, these temporary suspensions and their extensions, as well as the associated administrative costs will now become obsolete. At the same time,

⁹⁶ Source: AS 2015 4935.

⁹⁷ Source: AS 2019 1611; SR 632.102.1. It covered 522 tariff lines (at the HS 8-digit tariff line level) in Chapters 50, 51, 52, 53, 54, 55, 56, 58, 59, and 60, of which 15 tariff lines could not benefit from the suspension program if these items were used for retail sale or were in ready-to-use form; see also BUNDESRAT (2019a).

the preferential treatment of a single industrial sector will be abolished. Finally, the indefinite elimination of tariffs will reduce uncertainty for the sector.

- **Abolition of customs facilities:** In the Swiss customs system, certain goods are eligible for a reduced rate of duty if they are intended for specific uses. In the past, certain industrial products were also eligible for such use-related duty relief.⁹⁸ If importers wished to benefit from such duty relief, they had to submit a request to the FOCBS. As of 1 January 2024, all 779 existing use-related duty relief facilities for goods in HS chapters 25-97 will be abolished, which will also reduce the administrative burden for both companies and the FOCBS.
- **Abolition of the Expert Commission for Customs Tariff Matters:** The Expert Commission for Customs Tariff Matters (*Fachkommission für Zolltariffragen*, or FfZ) is an advisory body in the legal form of an extra-parliamentary commission. According to the information available, it was created in 1839, i.e., before the creation of the modern Swiss federal state, which underlines the traditional importance of customs matters in Switzerland.⁹⁹ It is consulted in specific situations regulated by law.¹⁰⁰ In the last ten years, only five matters have been referred to the FfZ; three of these five concerned proposals for the temporary abolition of customs duties on textile inputs and intermediates – a type of business that will disappear with the abolition of industrial tariffs on 1 January 2024 (see first bullet point in this section). The Federal Council has therefore decided to abolish the FfZ by 31 December 2023. Its few remaining tasks will be transferred

98 The legal basis for this practice is the *Verordnung des EFD vom 4. April 2007 über Zollerleichterungen für Waren je nach Verwendungszweck (Zollerleichterungsverordnung, ZEV)*, SR 631.012 (<https://www.fedlex.admin.ch/eli/cc/2007/252/de>). Here is a concrete example to illustrate this: Before 1 January 2024, the duty rate for hygienic or surgical masks (HS no. 6307.9010) was CHF 130.00 per 100 kg. If the same products were used for the prevention of a pandemic, importers could ask for the application of a lower duty of CHF 40.00.

99 The legal basis of the FfZ, formerly known as [*Eidgenössische*] *Zollexpertenkommission* is Art. 14 of the Customs Tariff Act, SR 632.10. Its members are appointed by the Federal Council, and the Commission is administered by SECO (see https://www.admin.ch/ch/d/cf/ko/gremium_10506.html). It is currently presided by the author of this article. According to research obtained from the Swiss Federal Archives, the first reference to a *Expertenkommission in Zollsachen* is found in the memoranda (*Abschiede*) of the Swiss Federal Diet (*Tagsatzung*). The archive reference is D0#1000/3#139-1* *Abschiede der eidgenössischen Tagsatzung des Jahres 1839* [Deutsch; *Maschinenschrift*], 1839, p. 260, lit c (<https://www.recherche.bar.admin.ch/recherche/#/de/archiv/einheit/32699272>). The Federal Diet was a meeting of delegates from the individual cantons that existed prior to the creation of the modern Swiss Confederation in 1848.

100 These situations include (i) duty reductions, the temporary total or partial suspension of customs duties on certain goods or the setting of tariff quotas (under Art. 4 para. 3 of the Customs Tariff Act; SR 632.10); (ii) measures relating to tariff preferences for developing countries (under Art. 4, para. 1 of the Federal Law on the Granting of Tariff Preferences in Favour of Developing Countries (SR 632.91); and (iii) specific instances in the determination of tariffs on agricultural products (in accordance with the Federal Law on the Import of Goods Made from Agricultural Products; SR 632.111.72).

to the Commission for Economic Policy¹⁰¹ – another extra-parliamentary commission under the aegis of SECO. The costs of maintaining the FfZ will thus become obsolete.

10 Conclusions

Switzerland's unilateral abolition of industrial tariffs on an *erga omnes* basis is one of the most important economic policy reforms in Switzerland in recent years. It sends a strong signal in favor of open trade at a time when trade is increasingly perceived as a zero-sum game, when the multilateral trading system is facing several challenges, when FTAs are becoming harder to conclude and when liberal trade policies are generally giving way to multifaceted protectionism.

As the reform will be implemented on 1 January 2024, it is of course far too early to make a final assessment – particularly as its economic impact will only be felt in the future. However, a number of lessons can already be drawn from the period between the launch of the project and its imminent implementation.

Starting with the political economy perspective, the tortuous path to political approval of the reform confirms the difficulties associated with unilateral liberalization in a domestic political context. These have long been discussed in the literature on the political economy of international trade (see Section 2) and are also manifest in the present case. This literature generally assumes that widespread but relatively small per capita gains provide insufficient incentives to lobby for trade liberalization. In line with these predictions, support for the project from consumer interests was indeed weak throughout the project. Against this background, it is not surprising that proposals emerged during the parliamentary debate to limit unilateral tariff abolition to raw materials and semi-finished goods as a first step, thus excluding consumer goods from liberalization. Conversely, most domestic support for the project came from associations representing the interests of transforming industries with highly integrated value chains. This reflects the fact that the national and international competitiveness of these industries depends crucially on sourcing flexibility. It is worth noting that the same groups that supported the unilateral dismantling of industrial tariffs are also those that generally support the conclusion of FTAs. Their support for the unilateral abolition of tariffs shows that, at least in the Swiss case, there is not necessarily a contradiction between autonomous liberalization and the conclusion of FTAs.

¹⁰¹ In German: *Kommission für Wirtschaftspolitik*. The legal basis for the Commission is the Ordinance on the Commission for Economic Policy, SR 172.327.9; see also https://www.admin.ch/ch/d/ef/ko/gremium_10564.html.

The political debates and arguments have also shown that the logic of reciprocity and policymakers' preference for reciprocal liberalization are deeply rooted. They represent a difficult hurdle for unilateral liberalization projects. This is true even in the "Swiss case", where the pipeline of economically meaningful and politically realistic new FTA negotiations is beginning to dry up, and where most industrial tariffs are already being levied on imports from FTA partners. In such a situation, it is far from clear that the concrete costs to the Swiss economy of maintaining import tariffs would be justified by the discounted, potential benefits of such hypothetical future FTAs.

Another finding is that the domestic policy debate was largely driven by interests. Idealistic or fundamental considerations, such as the desire to remove distortions or discriminations, to increase economic agents' freedom of transaction or to increase economic freedom in general, did not play a decisive role in the debate.

Turning to more economic considerations, it is interesting to consider the contribution of this reform to Switzerland's import liberalization, also in comparison with other trade policy instruments. Looking at the tariff savings realized on imports into Switzerland in 2021 under all FTAs, these amount to CHF 2,416 million, with the FTA between Switzerland and the EU of 1972 alone accounting for the lion's share of 85% (CHF 2,057 million). All the other 34 Swiss FTAs negotiated over the past decades have resulted in a total of CHF 358 million in tariff savings on Swiss imports. By comparison, the immediate gross tariff savings resulting from the one-off unilateral elimination of industrial tariffs on Swiss imports (CHF 681.7 million based on 2022 figures) will be almost twice as high. In addition, unlike the tariff savings resulting from FTAs, the tariff savings resulting from this unilateral liberalization can be achieved without lengthy and costly international negotiations, but rather in a purely domestic political context. Moreover, economic operators benefit from these tariff savings without the cost of complying with rules of origin and the resulting distortions in sourcing decisions associated with preferential liberalization. More generally, as argued in Section 2.1, unilateral liberalization on an *erga omnes* basis comes without the welfare-diminishing trade diversion that results from FTAs or CUs. It therefore also contributes to the much-discussed diversification of supply sources and economic resilience.

Of course, when comparing FTAs with unilateral liberalization, it would not be fair to limit the analysis to the import liberalization element of FTAs; their main objective is to reduce (often high) foreign tariffs on a country's exports,

which no unilateral measure can achieve.¹⁰² Moreover, modern FTAs not only liberalize tariffs, but also increase legal certainty in other areas such as non-tariff barriers, trade in services, investment or intellectual property. Finally, FTAs create international obligations that make it difficult to reverse liberalization once it has been achieved. Unilateral tariff elimination does not provide such insurance as long as bound tariffs remain in place (which is the case with the Swiss reform, thus maintaining an incentive for trading partners to establish or maintain free trade relations with Switzerland). Finally, as mentioned above, reciprocity-based FTAs may often be the only feasible way to liberalize a country's own imports from a domestic policy perspective.

In summary, it makes sense to consider unilateral liberalization as a complementary instrument to the conclusion of FTAs, each of which has its strengths and weaknesses. This is at least the case for a country with the characteristics of Switzerland: (i) a relatively small domestic market and thus limited weight in reciprocity-based negotiations; (ii) domestic industries with internationally highly integrated value chains and a strong interest in sourcing flexibility; (iii) low initial tariffs, which minimize the politically problematic distributional effects of liberalization; (iv) as a result, sufficient net domestic political support for unilateral liberalization; (v) a dwindling pipeline of economically meaningful and politically realistic FTA projects; (vi) flexible exchange rates and a flexible labor market; and (vii) a limited role for tariff revenues in the government budget.

For Switzerland, the relief that the project will bring to the economy comes at the right time. We are living in a time when the economy is under increasing pressure from a number of developments. These include rising geopolitical tensions which increase the risks of doing business internationally. These tensions are translating into a variety of initiatives aimed at increasing economic security through measures such as sanctions, tighter export or investment controls (increasingly including outbound foreign direct investment, too) and also industrial policy. Depending on their design, these initiatives will entail costs for businesses and taxpayers, as well as potential new forms of discrimination, distortions of competition and economic fragmentation at the global level.¹⁰³ Beyond security-related measures, we are witnessing a rapidly increasing regulatory burden, especially in Europe: New requirements for corporate due diligence, sustainability reporting, measures against deforestation or the introduction of a CBAM by the EU are just a few examples. Several of these initiatives include third country provisions, extending

102 It is not possible to quantify the total tariff savings on Swiss exports due to FTAs, as not all FTA partners share such data. Where data is available, it is included in the FTA Monitor of SECO at <https://www.seco.admin.ch/fta-monitor>.

103 For an overview of recent international trends, see GLOBAL TRADE ALERT (2023). As this report shows, trade distortions by G20 countries outnumber trade reforms by about 3:1 (p. 7).

the reach of these regulations extraterritorially and ultimately raising competitors' costs. These new regulations will inevitably lead to the creation of new "vested interests" that will make such policies difficult to dismantle at a later stage. To sum up: international economic freedom has probably never been under so much pressure in recent decades as it is today.

In the face of these developments, the unilateral abolition of industrial tariffs by Switzerland is a rare example of a reform that actually provides some relief to the economy without any strings attached. And unlike the industrial policies pursued elsewhere, this relief has the advantage that it does not create new discriminatory trade distortions or government tasks, but removes existing ones.

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