Department for International Trade

Continuing the United Kingdom's trade relationship with the Swiss Confederation and the Principality of Liechtenstein

Additional Agreement between the United Kingdom of Great Britain and Northern Ireland, the Swiss Confederation and the Principality of Liechtenstein extending to the Principality of Liechtenstein certain provisions of the trade agreement between the United Kingdom of Great Britain And Northern Ireland and the Swiss Confederation.

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Continuing the United Kingdom's trade relationship with the Swiss Confederation and the Principality of Liechtenstein

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Contents

Introduction

1. In line with commitments provided for in the Trade Bill 2017-19, this report explains the Government's approach to delivering continuity in the UK's trade relationship with the Principality of Liechtenstein (Liechtenstein) and the Swiss Confederation (Switzerland) as we leave the European Union (EU).

2. As the UK leaves the EU, the Government has sought to deliver the maximum possible certainty to businesses and consumers through ensuring continuity in the UK's existing trade relationships. It is in no-one's interests to disrupt existing trade flows.

3. To achieve this, the Government has developed new bilateral agreements that replicate, as far as possible, the effects of the EU's trade agreements with existing partners. The agreements provide for entry into force when the existing agreements between the EU and a third country cease to apply to the UK, whether the UK leaves the EU with no agreement or at the end of the Implementation Period if the Withdrawal Agreement is ratified. In either event, the agreements will form the starting point for the UK's future trade agreements with partners.

4. Wherever possible, the Government has sought a technical replication of these agreements, but in some cases, it has applied bespoke solutions for individual agreements as necessary to ensure continuity of effect in a bilateral context.

5. This report gives details of, and explains the reasons for, any significant differences between:

   a. the Additional Agreement between the United Kingdom of Great Britain and Northern Ireland, the Swiss Confederation and the Principality of Liechtenstein, extending to the Principality of Liechtenstein certain provisions of the Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and the Swiss Confederation ("the UK-Switzerland-Liechtenstein Agreement"), and

   b. the agreements extending two trade agreements between the EU and Switzerland to Liechtenstein ("the EU-Switzerland-Liechtenstein Agreements"):

      i. the Additional Agreement on validity for the Principality of Liechtenstein of the Agreement between the European Economic Community and the Swiss Confederation of 22 July 1972, done at Brussels on 22 July 1972 ("the EU-Switzerland-Liechtenstein Additional Free Trade Agreement"); and

      ii. the Additional Agreement between the European Community, the Swiss Confederation and the Principality of Liechtenstein extending to the Principality of Liechtenstein the Agreement between the European Community and the Swiss Confederation on trade in agricultural products, done at Brussels on 27 September 2007 ("the EU-Switzerland-Liechtenstein Additional Agriculture Agreement").

6. Liechtenstein is part of the Swiss customs territory. As such, the EU and Switzerland extended the Agreement between the European Economic Community and the Swiss Confederation, done at Brussels on 22 July 1972 ("EU-Switzerland Free Trade Agreement") and the Agreement between the European Community and the Swiss Confederation on trade in agricultural products, done at Luxembourg on 21 June 1999 ("the EU-Switzerland Agriculture Agreement") to Liechtenstein through the EU-Switzerland-Liechtenstein Agreements.

7. Both the EU-Switzerland Free Trade Agreement and the EU-Switzerland Agriculture Agreement have subsequently been incorporated into and modified by the Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and the Swiss Confederation ("the UK-Switzerland Trade Agreement"). This has been done to ensure

continuity to the extent possible between the UK and Switzerland as the UK leaves the EU. For a detailed explanation of the UK-Switzerland Trade Agreement, please refer to the Parliamentary Report on Continuing the UK's Trade Relationship with the Swiss Confederation ("the Switzerland Parliamentary Report").

8. In order to deliver continuity, to the extent possible, of these agreements with Liechtenstein, we have sought to continue the effect of current arrangements by extending the relevant provisions of the UK-Switzerland Trade Agreement to Liechtenstein through a single trilateral agreement ("the UK-Switzerland-Liechtenstein Agreement"). With Liechtenstein's consent, Switzerland has represented Liechtenstein during these discussions.

9. This report first sets out the general drafting changes necessary across all the UK's continuity trade agreements and which have no significant impact on the UK's current trade relationships. It then considers articles of the UK-Switzerland-Liechtenstein Agreement, in turn explaining any significant differences between the trade-related provisions of the UK-Switzerland-Liechtenstein Agreement and the corresponding provisions of the EU-Switzerland-Liechtenstein Agreements. To assist the reader, we have included some discussion of the economic impacts as appropriate. This report focuses solely on the changes made to the trading arrangements between the UK, Switzerland and Liechtenstein in preparation for the UK ceasing to be bound by the EU-Switzerland-Liechtenstein Agreements and entering into the UK-Switzerland-Liechtenstein Agreement. Any wider economic impacts resulting from the UK's exit from the EU or the nature of the Future Economic Partnership (the "FEP") have been excluded from this report.

Legal approach

10. To draft the UK-Switzerland-Liechtenstein Agreement we have reproduced in one text all relevant sections of the existing EU-Switzerland-Liechtenstein Agreements with necessary technical and administrative changes to make this operable in a UK-only context.

Resources

11. This report is intended to aid businesses, consumers and parliamentarians in understanding any significant changes made to the UK's trading relationship with Liechtenstein by the UK-Switzerland-Liechtenstein Agreement, the reasons for any changes, and their impact.

12. Should you wish to view the EU-Switzerland-Liechtenstein Agreements as originally published, they can be found online on the EUR-Lex website.

    a) the EU-Switzerland-Liechtenstein Additional Free Trade Agreement https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1551116052907&uri=CELEX:21972A0722(04)

    b) the EU-Switzerland-Liechtenstein Additional Agriculture Agreement https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1551115999459&uri=CELEX:22007A1013(01)

13. Should you wish to view the full text of the UK-Switzerland-Liechtenstein Agreement, it will be laid in Parliament alongside an Explanatory Memorandum as part of the UK's treaty ratification process in accordance with the Constitutional Reform and Governance Act 2010. The text will also be available on GOV.UK.

Economic Background

14. Liechtenstein is the UK's joint 127th largest trading partner,[1] accounting for <0.1% of total UK trade. Total trade in goods and services between the UK and Liechtenstein was £155 million in 2017.[2]

15. In 2017, UK exports to Liechtenstein were £87 million, making it the UK's joint 126th largest export market (accounting for <0.1% of all UK exports). UK imports from Liechtenstein were £68 million, making it the UK's joint 121st largest import market (accounting for <0.1% of all UK imports).

Table 1: Trade between the UK and Liechtenstein, 2017 (£, million)

	Trade in goods	Trade in services	Total trade
UK exports to Liechtenstein	11	76	87
UK imports from Liechtenstein	1	67	68
Total trade	12	143	155

Source: ONS, (2018). UK trade: August 2018; ONS, (2018). UK trade in services by partner country experimental data: April to June 2018.

16. Using data from HMRC for trade in goods only, Table 2 shows the top goods exported to Liechtenstein were predominantly in electrical machinery and equipment (£9.6 million in 2017), representing 64% of the total value of goods exported to Liechtenstein. The UK's top goods imported from Liechtenstein were in nuclear reactors, boilers, machinery and mechanical appliances (£0.9 million in 2017) and articles of stone, plaster, cement, asbestos, mica or similar materials (£0.7 million).

[1] EU members are treated as individual trading partners with the UK.
[2] ONS, (2018). UK trade: August 2018; ONS, (2018). UK trade in services by partner country experimental data: April to June 2018.

Table 2: Top 5 UK goods exports to & imports from Liechtenstein in 2017(at HS2[3], £ million)

Top 5 UK goods exports to Liechtenstein	Value	Top 5 UK goods imports from Liechtenstein	Value
Electrical machinery and equipment	9.6	Nuclear reactors, boilers, machinery and mechanical appliances	0.9
Natural or cultured pearls, precious or semi-precious stones, precious metals	0.8	Articles of stone, plaster, cement, asbestos, mica or similar materials	0.7
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus	0.7	Vehicles other than railway or tramway rolling-stock	0.3
Miscellaneous edible preparations	0.6	Electrical machinery and equipment	0.2
Works of art, collectors' pieces and antiques	0.6	Articles of apparel and clothing accessories	0.2

Source: HMRC trade statistics by commodity code (accessed 5th November 2018). Sectors classified according to Harmonised System Sections. Data presented is recorded on a 'physical movement' basis where a good is recorded as an export (import) if it physically leaves (enters) the economic territory of a country.

17. Table 3 shows that in 2017 construction services were the largest UK services export to Liechtenstein, valued at £40 million. Insurance and pension services were the largest UK services import from Liechtenstein, valued at £20 million, with other services imports less than £500 thousand and therefore not reported by the ONS.

Table 3: Top 3 UK services exports to & imports from Liechtenstein, 2017 (£ million)

Top 3 UK services exports to Liechtenstein	Value	Top 3 UK services imports from Liechtenstein	Value
Construction	40	Insurance & pension	20
Telecommunications, computer and information services	20		
Other business services	11		

Source ONS, (2018). Pink Book 2018; ONS, (2018). UK trade in services by partner country experimental data: April to June 2018.

Note: Data for 'personal, cultural and recreational' (import) and 'insurance & pension' (export) sectors have been omitted by the ONS as the data might be disclosive, but the values are included in the overall totals. Services data is always reported on a 'change of ownership' (Balance of Payments) basis.

[3] The Harmonized System (HS) is an international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes.

18. The trade figures in the two tables above are not directly comparable. The ONS data is recorded on a 'Balance of Payments' or 'change of ownership' basis where a good or service leaving (entering) the economic territory of a country is recorded as an export (import) only if it has changed ownership between the resident of the reporting country and non-residents. Goods exports (imports) are recorded by HMRC if a good physically leaves (enters) the economic territory of a country.

Economic impact of the existing FTA

19. There is a lack of evidence examining the impact of existing trade agreements between the UK and Liechtenstein specifically.

20. Trade data suggests that UK trade with Liechtenstein has been volatile, though for around the last two decades, bilateral trade has been on an upward trend increasing by around 648% from 1999-2017. It is not possible to analyse Liechtenstein's historic trading patterns as the collection of independent statistics in Liechtenstein did not occur until relatively recently. However, evidence suggests that the EU/EEA is Liechtenstein's main export and import market, representing 86% and 96% of Liechtenstein's trade respectively.

Potential loss to UK if the proposed FTA is not brought into force

21. Not being able to ratify this transitioned agreement would result in UK businesses losing the preferences negotiated in the EU-Switzerland-Liechtenstein Free Trade Agreements. This would include the re-imposition of many tariffs, returning to MFN treatment with Liechtenstein. The benefits derived from trading under preferences, such as increases in trade flows, may then be reversed.

22. It is unlikely that the entire effect of the agreement would disappear. Tariffs would automatically revert to MFN rates, discussed in further detail below, but it could take longer for some of the other benefits to be lost. Some gains might endure even in the long-run. For example, the UK might still benefit from certain regulatory arrangements agreed between Liechtenstein and the EU. Business connections formed because of the trade relationship might endure.

23. The size of the impact of not ratifying the proposed free trade agreement would depend on the responsiveness of trade flows to increased costs brought about by the loss of provisions within the agreement.[4]

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[4] Head K and Mayer T. (2014). 'Gravity Equations - Workhorse, toolkit and cookbook'. *Handbook of International Economics*, 4, pp. 131-195.
Dhingra S, et al. (2018). 'Beyond Tariff Reductions: What Extra Boost From Trade Agreement Provisions?'. *CEP Discussion Paper No 1532*, LSE, pp. 1-38.

Immediate impact if not ratified

Tariffs

24. Much international goods trade takes place in products for which MFN rates are already zero. However, free trade agreements provide additional opportunities by reducing tariffs in products where this is not the case. If the UK-Switzerland Liechtenstein Agreement was not approved and ratified, tariffs between the two countries would automatically revert to MFN rates for all trade. This would lead to an increase in duties on some UK exports to and imports from Liechtenstein. There is no comparable data available on tariffs faced by UK exporters to Liechtenstein, therefore only the changes in import duties could be calculated.

25. To estimate the potential impact of losing tariff preferences, assumptions have to be made. If all current trade between the UK and Liechtenstein occurred at the negotiated preferential tariff rate, if current patterns of trade remained unchanged in future, and without taking into account the effect of any unilateral preferences, reverting to the UK and Liechtenstein's current MFN tariff rates would result in an annual increase in total duties of around £0.1 million.[5]

26. However, these estimates assume that all tariff preferences offered under the current agreement are fully utilised by exporters. This is unlikely to be true. DIT Estimates suggest that 96% of the UK's eligible goods imports from Liechtenstein (defined as those which occurred under tariff lines where a preferential rate was offered under the agreement) were imported utilising the preferences under the agreement in 2016.[6]

27. Similar data on UK eligible goods exports to Liechtenstein is not publicly available. The European Commission[7] has recently published available data on preference utilisation of exports to selected partner countries.[8] For these countries, 68% of UK eligible goods exports were traded under preferences.

28. The total duty which would in fact be charged on exports and imports would depend on how quantities and prices of traded products adjusted to the imposition of tariffs. If UK producers were not previously utilising the preferential rates or producers and consumers changed their

[5] DIT's own calculations using tariff data from ITC Market Access Map (MacMap) and HMRC trade statistics (accessed 24th October 2018). Implied additional duties are calculated using the difference in MFN and preferential tariff rates and the current value of trade for each product at HS2 level, 2017. MFN tariff rates for imports into the UK are trade-weighted average rates using a reference group of countries by ITC Market Access Map, rather than bilateral trade data. This is to overcome endogeneity bias which may show low average tariff rates where there are low bilateral trade values. These results assume all trade occurs under preferential FTA tariff rates. Different approaches to this analysis are likely to yield different results. The estimate of implied additional duties may be lower than which would be generated if trade and tariff data at a more disaggregated level (CN8 level) were used, as we might expect that tariffs would be higher in the tariff lines where imports are higher.

[6] DIT's own calculations using data from Eurostat (accessed 19th November 2018). Note that using a single year does not account for fluctuating trends in bilateral trade flows, which can be significant. In general, data on the preference utilisation of trade deals is not readily accessible and should be treated with caution. They indicate whether businesses trading in goods are benefitting from negotiated preferences, but do not tell us which or how many businesses are using these preferences. Nor do they cover services trade.

[7] Nilsson L and Preillon N. (2018). 'EU Exports, Preferences Utilisation and Duty Savings by Member State, Sector and Partner Country'. *European Commission*, pp. 1-17. This report uses data collected by EU Delegations from relevant authorities in countries with which the EU has bilateral reciprocal trade agreements in place.

[8] Albania, Chile, Colombia, Costa Rica, Dominican Rep., Egypt, FYR Macedonia, Israel, Kosovo, Lebanon, Mexico, Montenegro, Morocco, South Africa, Korea, Switzerland, Turkey. Data were not available for all partner countries.

behaviour in response to higher tariffs, this cost would be lower than estimated above. These are strong assumptions, so this figure should be treated as an indicative estimate of the magnitude of the trade barrier under this scenario.

29. The indicative estimate is that the largest implied increases in UK import duties would be in vehicles (HS87) of up to £0.03 million and articles of apparel and clothing accessories (HS61) up to just over £0.02 million. This corresponds to the top goods traded with Liechtenstein.

30. Indicative estimates of implied additional tariff duties are provided above to give a sense of scale of possible additional costs of trade. Tariff duties are transfers, where the cost to business is equal to the extra tariff revenue collected by the UK Exchequer and the Liechtenstein government. However, there could be wider effects of increased costs of trade, including negative impacts on consumer choice, prices, and ultimately economic growth and welfare. Estimates of implied additional duties therefore do not constitute an estimate of the impact.

Businesses

31. Additional duties could be absorbed by either UK or Liechtenstein businesses, passed on to consumers, or existing trade patterns could be interrupted. This could impact UK competitiveness, leading to disruptions in supply chains and job losses in the short-term.

32. Businesses that rely on imports as part of their supply chains may be affected if import prices rise, including UK exporters that rely on Liechtenstein inputs to export goods to the rest of the world. In 2015 (latest data), around 15.1% of the value added in UK's gross exports reflected imports from abroad, though the data does not provide how much of this is from imports from Liechtenstein.[9] UK companies which rely on Liechtenstein imports would become less competitive. Given the small share of UK trade under this agreement, in this case we would expect these impacts to be small but could be noticeable for some specific companies.

Consumers

33. Imported products could be more expensive for consumers if retailers pass on additional duties to consumers through increases in domestic prices. This could disproportionately affect certain groups of consumers, for example those at the lower end of the income distribution. Consumers might also see a reduction in choice of products available. Given the small share of UK- Liechtenstein trade in total UK trade, this impact may be relatively small overall, but could be noticeable on specific product lines.

Longer-term impact if not brought into force

34. In the long run, the UK would forgo the longer-term benefits that the free trade agreement would have brought to UK. This could result in the long-term UK GDP marginally decreasing if a deal is not reached. Given the small share of UK trade under the UK-Switzerland-Liechtenstein Agreement, we would expect the impact on GDP to be small.

[9] OECD, 2018. Trade in Value Added (TiVA): Origin of value added in gross exports, December 2018. Experimental statistics.

Explanation of the significant differences between the UK-Switzerland-Liechtenstein Agreement and EU-Switzerland-Liechtenstein Agreement

35. This section provides a discussion of differences between the UK-Switzerland-Liechtenstein Agreement and the EU-Switzerland-Liechtenstein Agreements.

36. The effect of this agreement is that the provisions of the EU-Switzerland Free Trade Agreement and of the EU-Switzerland Agriculture Agreement, as incorporated and modified by the UK-Switzerland Trade Agreement (the "Incorporated Free Trade Agreement" and the "Incorporated Agriculture Agreement"), shall apply to Liechtenstein, subject to the provisions of the UK-Switzerland Trade Agreement.

37. The adaptations specific to Liechtenstein concerning Annexes to the Incorporated Agriculture Agreement are laid down in the Annex to this Additional Agreement. Certain provisions of the UK-Switzerland Trade Agreement disapply annexes to the Incorporated Agriculture Agreement, we have removed corresponding provisions from the Annex to the Liechtenstein Agreement. For details of the annexes disapplied, please refer to the Switzerland Parliamentary Report. Until the future economic partnership with the EU is determined, the impact of not transitioning the four annexes mentioned above on existing trade flows between the UK and Liechtenstein cannot be calculated. HMRC data in these sectors is either not available or is incomplete.

General Provisions

Removal and replacement of references to the EU and the EU-Switzerland Agreements

38. Where necessary, references to the "European Union", "the European Community", the "EU" "EU Party", and "Member States" are replaced by references to the UK. Similarly, references to the EU-Switzerland Free Trade Agreement and the EU-Switzerland Agriculture Agreement have been replaced by references to the UK-Switzerland Trade Agreement.

Institutions and Committees

39. Institutional provision in the EU-Switzerland-Liechtenstein Agreements have been retained in the UK-Switzerland-Liechtenstein Agreement. The Committee relevant to the operation of the UK-Switzerland-Liechtenstein Agreement is the Joint Committee established in the UK-Switzerland Trade Agreement, as well as its sub-committees. That Committee is tasked with ensuring that the UK-Switzerland Trade Agreement, including the provisions extended to Liechtenstein by the UK-Switzerland-Liechtenstein Agreement, functions properly.

40. Paragraph 1 of Article 2 of the UK-Switzerland-Liechtenstein Agreement provides that Liechtenstein's interests on that Committee may be represented by the Swiss Delegation to that Committee.

41. Paragraph 2 of Article 2 provides that the Joint Committee of the Incorporated Agriculture Agreement may decide to modify the Annex to the UK-Switzerland-Liechtenstein Agreement.

Entry into Force and Provisional Application

42. Entry into force provisions specify the date from which the terms of the agreement will bind the parties. Existing entry into force provisions have been replaced with new provisions to ensure that, whatever the scenario in which the EU-Switzerland-Liechtenstein Agreements cease to apply to the UK, the UK-Switzerland-Liechtenstein Agreement enters into force as swiftly as possible. For the UK- Switzerland-Liechtenstein Agreement to enter into force, it must first be approved by the UK, Switzerland and Liechtenstein in accordance with their domestic procedures. In UK domestic law, before an agreement subject to “ratification” (within the meaning of section 25 of the Constitutional Reform and Governance Act 2010 (CRaG Act)) may be formally ratified, it must be laid before Parliament for scrutiny under the CRaG Act.

43. In the event that the UK leaves the EU on 29 March 2019 without the Withdrawal Agreement having been signed and ratified, it will not be possible for this Agreement to enter into force from the date on which the UK withdraws from the EU. The UK, Liechtenstein and Switzerland have therefore agreed, pursuant to paragraph 3 of Article 3, to provisionally apply this Agreement from the date that the UK-Switzerland Trade Agreement is provisionally applied (namely, when the EU-Switzerland-Liechtenstein Agreements cease to apply to the UK).

44. Provisional application is a mechanism which allows an agreement to be applied prior to its entry into force. This means that the treaty can be provisionally applied prior to completion of the procedures required by the domestic law of the respective negotiating States for its entry into force, provided any necessary domestic implementing measures are in place. This creates a legally binding obligation on the parties to apply the treaty pending entry into force. The UK has used provisional application on a number of occasions in its independent treaty relations and a number of existing EU international agreements have also been provisionally applied. Provisional application is recognised by Article 25 of the Vienna Convention on the Law of Treaties 1969.

45. Provisionally applying this Agreement reduces the risk of the parties losing access to the benefits of the agreement in a period before the agreement enters into force. Given that the Government is seeking to maintain the effects of the existing EU agreements as the UK leaves the EU, this is a proportionate approach to managing the timing constraints during this unique period and reduces the risk of businesses and consumers experiencing disruption as the UK leaves the EU.

Annex and Protocols

Geographical Indications

46. The Annex of the UK-Switzerland-Liechtenstein Agreement retains protection for those Liechtenstein geographical indications, which were listed in the EU-Switzerland-Liechtenstein Additional Agriculture Agreement at the time of transition. For more on GIs please refer to the Switzerland Parliamentary Report.

Rules of Origin

47. In trade agreements, Rules of Origin are used to determine the economic nationality of a good. In order to qualify for preferential tariff rates, a good must "originate" in one of the parties to the agreement. Trade agreements may also allow materials originating and/or processing in a country other than the exporting Party to count towards meeting the specific origin requirements for preferential treatment, a process known as "cumulation".

48. There are two categories relevant to determining whether goods "originate" in the exporting country for the purposes of a trade agreement:

    a. Wholly obtained – These are goods that are wholly obtained or produced entirely in a single country. Examples include mineral products extracted from the soil and live animals born and raised there.

    b. Substantial transformation – These are goods that are made from materials which come from more than one country, and the origin is therefore defined as that of the country where the goods were last substantially transformed. This can be determined in three ways:

        i. *Value added* – This type of rule requires that a particular proportion of the final value of the product be added in the exporting country.

        ii. *Change in Tariff Classification* ("CTC") – This type of rule requires that the final product be sufficiently different from the imported materials so that it moves to a different tariff classification altogether.

        iii. *Specific processing or manufacturing* – These rules typically apply where value added or CTC rules may not adequately determine originating status, and where specific processes are required to meet originating criteria.

49. As a member of the EU, all UK content is currently considered as "originating" in the EU and UK exports are designated as "EU origin". This means that originating materials and inputs from the UK and the rest of the EU can be used interchangeably in the UK's bilateral trade with existing EU trade agreement partners.[10] This will no longer be the case when existing EU trade agreements stop applying to the UK. At this point, the designation of UK exports will shift from "EU" originating, to "UK" originating and EU content will (unless specific provision is made in new agreements) no longer count towards meeting the origin requirements for preferential treatment for either party. This would have implications for goods traded between the UK, EU and Liechtenstein.

50. To address these implications and to provide maximum continuity for business, it has been agreed in the new UK-Switzerland-Liechtenstein Agreement that EU content and processing

[10] UK and Liechtenstein content will also continue to count as originating in trade between each other.

can continue to be used, and count as originating, in UK and Liechtenstein exports to one another. The cumulation arrangements are set out in detail in Title II (Definition of the concept of 'originating products') of the Rules of Origin Protocol and are subject to satisfying certain conditions specified in the agreement.

51. The EU and Liechtenstein (as part of the EU) are currently contracting parties to the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) and apply the PEM Convention between them. The PEM Convention is a multilateral agreement that harmonises preferential rules of origin across the Euro-Med area and provides for cumulation between contracting parties to that Convention. The UK's future relationship with the PEM Convention will, in part, depend on UK-EU arrangements, so the UK-Switzerland-Liechtenstein Agreement reflects the provisions of the PEM Convention in a bilateral context with modifications.

52. The text of the Rules of Origin Protocol can be found in the Appendix to Annex 1 of the UK-Switzerland Trade Agreement.

Impact

53. If cumulation of EU content for the UK and Liechtenstein were not permitted under the proposed UK-Switzerland-Liechtenstein Agreement, some UK and Liechtenstein based exporters might find themselves unable to access preferences, as they are currently able to, under the proposed trade agreement. UK exporters to Liechtenstein who rely on EU inputs might have to revert to paying Most Favoured Nation (MFN) tariff rates, if they continued using EU inputs, or they might have to review and reassess their existing supply and value chains as a result of this change to existing terms. The impact would, of course, vary across sectors.

54. The UK-Switzerland-Liechtenstein Agreement provides only for trade between the UK and Liechtenstein and does not provide for either party's direct trade with the EU, including, for example, where UK and Liechtenstein based exporters use content from each other in exports to the EU.

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