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TRADE POLICY REVIEW

Reports by

SWITZERLAND AND LIECHTENSTEIN

Revision

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statements by Switzerland and Liechtenstein are attached.

[1] Original version in French for the Report by Switzerland and original version in English for the Report by Liechtenstein.

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REPORT BY SWITZERLAND

I. GENERAL COMMENTS

1. This report, together with that of Liechtenstein and the Secretariat report on the two countries, establishes the basis for the review of their trade policy by WTO Members on 15 and 17 December 2008, given the fact that they form an economic and monetary union and Liechtenstein is an integral part of Swiss customs territory.

2. Switzerland's economic policy is a liberal one. *Macroeconomic policy* is geared to maintaining a balanced budget in the medium term and keeping prices stable. The Swiss authorities endeavour to maintain full employment and the Government is undertaking reforms in order to support sustained growth by creating investment-friendly framework conditions.

3. International trade, which plays a key role in the Swiss economy[1], has been one of the major catalysts for Switzerland's economic growth since 2004. It is therefore hardly surprising that the Swiss Government attaches great importance to global markets open to goods and services, including government procurement, and to strong protection for intellectual property.

4. The Government's priorities for Switzerland's *external economic policy* have been embodied in the *strategy* contained in the introductory chapter to the Federal Council's 2004 Report on foreign economic policy.[2] This strategy is based on *three objectives*. The first is to improve access to external markets and help to ensure the introduction of a coherent and observed set of international rules; the second is to improve Switzerland's competitiveness by making its products more competitive; and the third is to integrate the largest possible number of countries into the global economy. These objectives underpin the three *components* of external economic policy, namely: (i) *access to external markets and international rules*; (ii) *internal market policy*; and (iii) *assisting the economic development of partner countries*.

5. The *first of these objectives* is to ensure that Swiss suppliers have non-discriminatory access to markets worldwide. For this to be achieved, on the one hand, barriers to cross-border trade such as customs or non-tariff barriers must be dismantled. On the other, in order to give Swiss exporters legal security and protect those investing abroad, transparent trade rules that are effective and compatible at the international level have to be drawn up.

6. Because international trade has historically played an important role in developing Switzerland's economy, the Government remains deeply attached to an *open multilateral trading system*. At a time when there is a growing trend towards regionalizing trade, Switzerland considers *strengthening of the multilateral trading system* to be a *priority*. In its view, multilateralism is the best way of ensuring effective rules on market access and the protection of economic actors. In general, smaller countries are better able to defend their interests in a multilateral forum rather than finding themselves in a situation where there is an unequal balance of market power.

7. For the Swiss Government, the *WTO* has a vital role to play in the gradual liberalization of international trade, the establishment of rules, rights and obligations governing international trade, as well as in the settlement of disputes. The multilateral trading system must be made even stronger by

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[1] Exports and imports of goods and services, respectively, accounted for 55.9% and 46.7% of the gross domestic product in 2007.

[2] See http://www.seco.admin.ch/dokumentation/publikation/00004/00018/01800/index.html?lang=fr.

closer integration of developing countries, countries with economies in transition and least developed countries. Switzerland, therefore, intends to pursue with determination its commitment to a rapid and positive outcome for the Doha Round negotiations.

8. The reason why Switzerland is also party to several *bilateral* or *regional free trade agreements* is that it believes them to be a complementary way of accelerating the liberalization of trade on an international scale. They could never, however, replace the multilateral trading system.

9. Situated at the heart of Europe, Switzerland has naturally over the years developed *close economic relations with the members of the European Union (EU)*. In addition to the 1972 Free Trade Agreement, Switzerland has signed *Bilateral Agreements I and II* with the EU[3], which cover a large number of areas, namely, free movement of persons, air and land transport, agriculture and processed agricultural products, training and research, technical barriers to trade, government procurement, cooperation in matters relating to justice, the police, asylum and migration (Schengen/Dublin), taxation of savings and action to combat fraud, the environment, statistics, participation in the MEDIA programme and pensions.

10. In addition to its Bilateral Agreements with the EU, the 1960 Convention of the *European Free Trade Association (EFTA)* and the Free Trade Agreement with the Faroe Islands, Switzerland has a *network of 16 free trade agreements* concluded under the EFTA framework (Palestinian Authority/PLO, Canada, Chile, Croatia, Egypt, the former Yugoslav Republic of Macedonia, Israel, Jordan, Lebanon, Mexico, Morocco, the Republic of Korea, Singapore, Tunisia, Turkey and the Southern African Customs Union (SACU).[4] Negotiations are under way between EFTA members and Algeria, India, Peru and Thailand. The negotiations with the States belonging to the Gulf Cooperation Council/GCC[5] and Colombia have been concluded as far as substance is concerned. EFTA member countries are also looking into the possibility of initiating negotiations with a whole series of other trade partners. At the bilateral level, in May 2007, Switzerland and Japan commenced negotiations with a view to reaching an economic partnership and free trade agreement of broad scope. In 2007, Switzerland and China agreed to examine the possibility of signing a free trade agreement between the two countries. In the first instance, Switzerland and China will study the feasibility of an agreement at the internal level.

11. As the *second objective* of Switzerland's external economic policy strategy, a more competitive domestic market is essential for two reasons. Firstly, the introduction into Switzerland of competitive structures at the international level means opening up economic sectors that are still highly fragmented. This is essential in order to lower the cost of inputs for firms - a prerequisite for taking advantage of opportunities in external markets - and to maintain living costs at an affordable level both for wage-earners and for the remainder of the population. Secondly, opening up protected sectors allows Switzerland to proclaim its ambitions more forcibly, thereby strengthening its negotiating capacity. This aspect is particularly important at a time when economic power is being redistributed and partners of importance to Switzerland no longer confine themselves to economies with similar interests. This is why considerable efforts have been made in recent years to reform the domestic economy while at the same time opening up to a greater extent to the outside.

12. The *third objective* of Switzerland's external economic policy is the integration of developing countries and countries with economies in transition into the global economy. This is of interest to

[3] See also the Report of the Swiss Government for the 2004 Trade Policy Review of Switzerland and Liechtenstein.
[4] Botswana, Lesotho, Namibia, South Africa and Swaziland.
[5] Bahrain, Kuwait, Oman, Saudi Arabia and the United Arab Emirates.

the Swiss economy in the long term as these countries may become new outlets and offer attractive opportunities for investment and acquisition. Switzerland is therefore trying to help its partners to reorganize their national framework conditions through economic cooperation for development (whether bilateral or multilateral). At the multilateral level, international organizations not only engage in development activities but also exercise a degree of surveillance over the national economic policies of all countries (peer review). Switzerland's participation and its contributions to international organizations active in the economic and financial spheres (International Monetary Fund, World Bank, regional development banks, Organisation for Economic Co-operation and Development, the WTO, United Nations specialized agencies) are therefore extremely important both for economic development cooperation and for dialogue with other industrialized countries.

13. Consequently, the Swiss authorities support the opening up of markets to products from the least developed countries (LDCs), action in favour of countries in the process of acceding to the WTO and enhanced technical assistance to developing countries so as to allow them to become integrated into the multilateral system and develop their capacity to benefit from it. It strongly supported the agreement in favour of LDCs adopted at the WTO's Sixth Ministerial Conference in Hong Kong, China, in December 2005, under which industrialized countries such as Switzerland would, on a permanent basis, give LDCs market access without customs duties or quotas for at least 97% of their tariff lines and at the latest by 2008. Since 1 April 2007, Switzerland has allowed market access without customs duties or quotas to all imports from LDCs (according to the United Nations definition), with the exception of sugar and rice. For sugar, tariff-free and quota-free market access is granted from 1 July 2009, and for sugar from 1 September 2009. It will be recalled in this connection that the first step towards giving LDCs greater market access had already been taken in 2001 and 2004.

14. Finally, the Swiss authorities believe that it is extremely important to promote *consistency* among the various external economic policy activities and other government policies both at the national and international levels. At the internal level, the Swiss Government is endeavouring to achieve this through closer coordination among the relevant Federal agencies and offices, including during the course of international negotiations. At the same time, it wishes to encourage the necessary *external transparency* through *information* and *participation* of the people, Parliament and the spheres concerned by the *decision-making process.* By so doing, it can be sure that the policies thus defined will command widespread *support.*

15. This report describes first of all the economic environment in which Swiss trade has developed since the previous review of its trade policy in 2004. After highlighting the impact which the structural adjustment measures taken by the Swiss Government have had on Switzerland's overall economic development, it describes the main directions of the reforms undertaken over the past four years and those under way, as well as the other main priorities of Swiss economic policy at the domestic and foreign levels. Lastly, it points to the objectives followed by Switzerland in multilateral negotiations, which remain the principal tool for continued opening up of the Swiss economy and integrating it into the world economy, as well as the indispensable complement to the reform efforts being undertaken at the domestic level.

II. ECONOMIC ENVIRONMENT

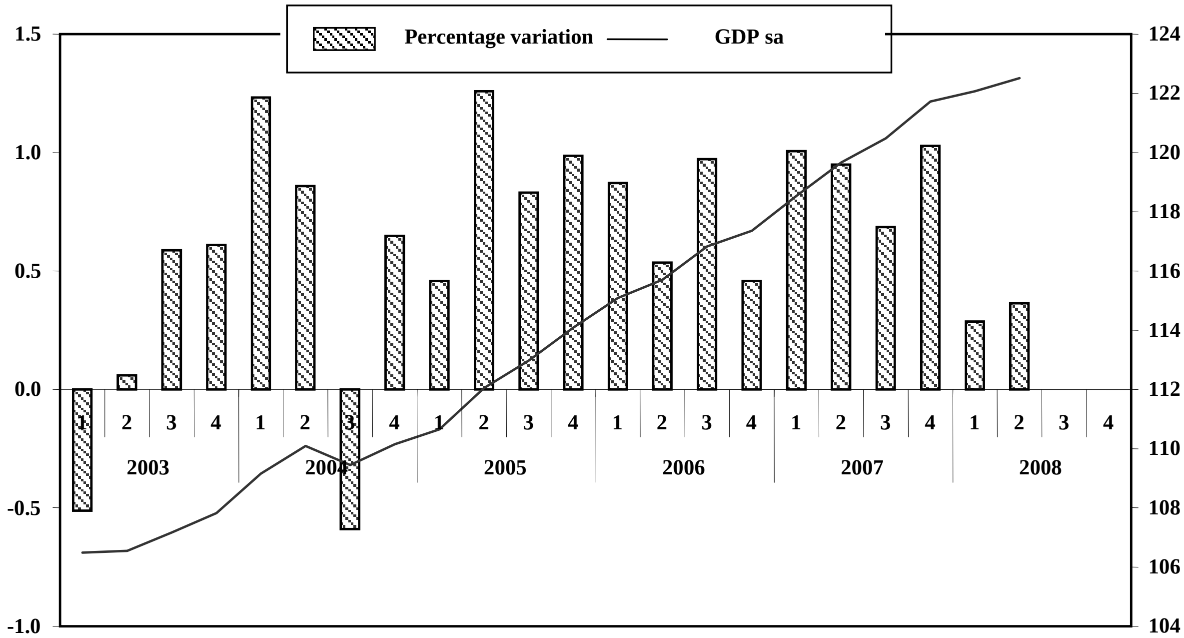
(1) ECONOMIC AND MACROECONOMIC POLICY DEVELOPMENTS

(i) Economic trends

16. The internal economic reforms resolutely undertaken by Switzerland since 1993, the growing globalization of trade and closer economic integration with Europe, especially the effective

implementation of free movement of persons within the EU and EFTA, have resulted in *a notable acceleration of Switzerland's economic growth* since the economy started to recover in the second half of 2003. From 2004 until 2007, the rate of growth in the gross domestic product (GDP) hovered around 3%.

Real GDP
Percentage variation in comparison with the previous quarter and levels: 2003:1-2008:2 (figures adjusted seasonally, linked, to prices for the previous year, base year, 2000, non-annualized figures)



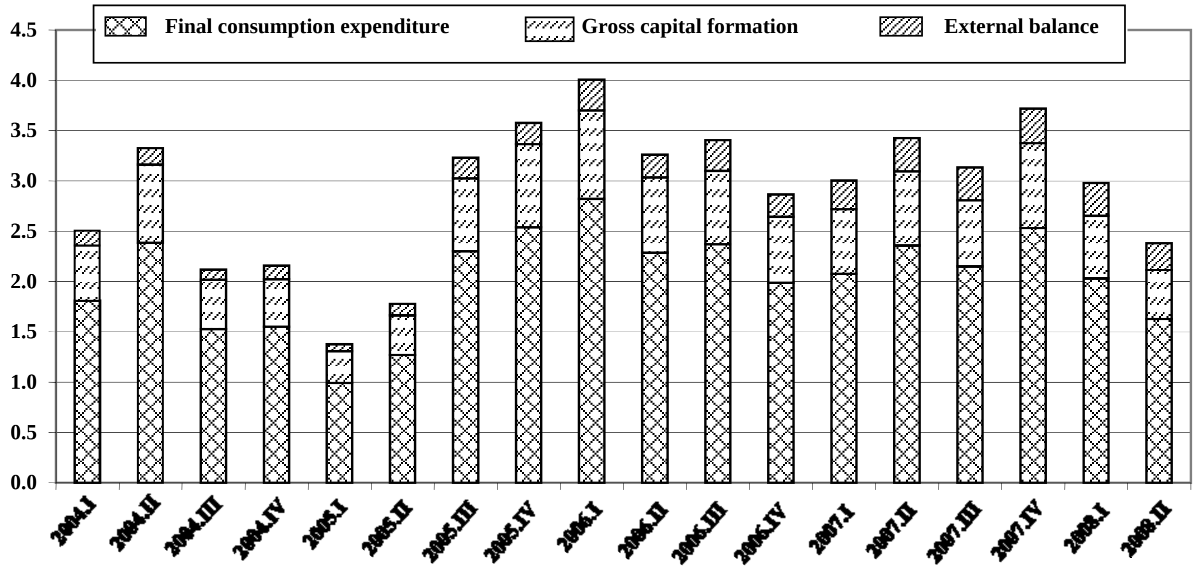
Source: State Secretariat for Economic Affairs (SECO).

17. Nevertheless, the slowdown on the international scene and the bearishness of financial markets will no doubt have an impact on the Swiss economy until 2009. The Swiss GDP's growth had already slowed down in the first half of 2008 (+0.3% for the first quarter and +0.4% for the second quarter 2008 in comparison with the previous quarter), with personal consumption and investment in machinery buoying up domestic growth[6], even though increased personal consumption in the second quarter was sustained by exceptional factors.[7]

[6] See http://www.seco.admin.ch/themen/00374/00456/index.html?lang=fr.

[7] These exceptional factors were household expenditure on housing and energy. In the second quarter of 2008 these increased rapidly because of the difference in temperature between April 2007 and April 2008 (April 2007 was the hottest since records began in 1864).

Breakdown of real GDP
Percentage variation in comparison with the previous period in the previous year 2004:1-2008:2 (at prices for the previous year)



Source: State Secretariat for Economic Affairs (SECO).

18. Since mid-2003, the contribution by financial services to Switzerland's economic success has been more than proportional. Nevertheless, even though the Swiss property market is basically healthy, the current instability in international financial markets will no doubt in the short term affect the capacity of Swiss banks to create value added, principally because of low prices on the stock market and the cutback in mergers and takeovers.

19. Switzerland's recent economic success could not have been achieved with such vigour and with moderate inflation without the *gradual implementation of the free movement of persons* since 2002. The possibility of freely employing personnel within the European Economic Area has, *inter alia*, allowed Swiss firms to respond positively to strong demand from abroad in recent years for high-quality Swiss products, particularly from countries with emerging economies. In years to come, free movement could yield additional advantages (for example, because of the level of immigrants' professional qualifications). The recent prosperity should not, however, disguise the fact that the structural rate of growth in labour productivity has probably not increased all that much. The need to continue with ambitious economic reform remains.

(ii) Foreign trade and current balance

20. During the recovery phase, foreign trade and domestic investment played a key role in boosting demand in Switzerland.

21. The expansion of *exports* was confirmed in the first, but above all the second, quarter of 2008, even if exports of articles of value and precious materials are not included. While tourism had the advantage of favourable conditions (good snow cover), other sales of services abroad (banking, insurance, transport) stagnated at best. In the first half of the year, exports of goods increased by

7.5% in comparison with the same period the previous year in both nominal and real terms, and this was true for the majority of branches. Although exports to the United States are not expanding, exports to developing countries show a dynamism that continues to bear up well.

22. *Imports* have fallen sharply. Imports of services, in particular banking commission, have been badly affected, while spending by residents abroad and imports of consumer goods alone seem to be rising.[8]

23. The *Swiss current account balance* had a surplus of Sw F 71 billion in 2006, compared to Sw F 58 billion in 2004. As a percentage of GDP, the surplus in the current account balance therefore rose from 13% in 2004 to 14.5% in 2006. In 2007, it fell and reached Sw F 68 billion (i.e. 13.4% of the GDP).

24. The strong performance of *services exports* played a decisive role in the rising surplus in the current account balance from 2004 to 2007. Financial services by banks, transit trade and insurance services, in particular, increased strongly. The credit balance for services rose from Sw F 16 billion to Sw F 44 billion. The credit balance for *trade in goods* increased, from Sw F 7 billion in 2004 to Sw F 9 billion in 2007. The *capital income* surplus declined to Sw F 39 billion in 2007 (2004: Sw F 42 billion). Admittedly, in 2005 and 2006 it had exceeded Sw F 50 billion because of the high income from direct investment. In 2007, however, the income earned by banks from direct investment fell because of the turmoil on the financial markets. As a result, net capital income showed a marked decrease.[9]

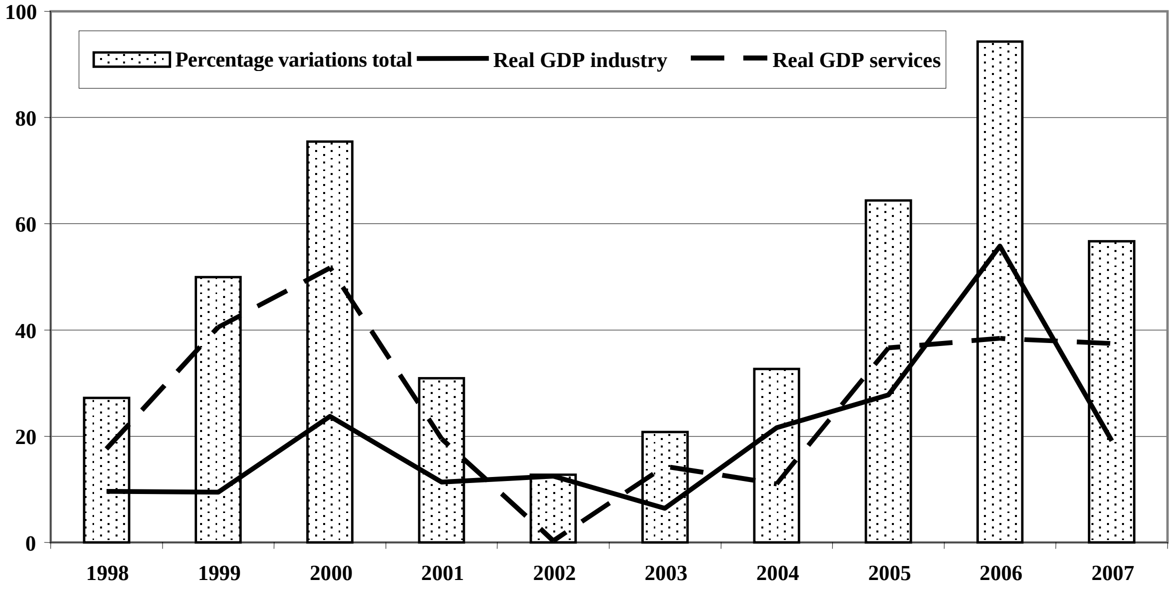
(iii) Flows of foreign direct investment

25. Vigorous growth in the global economy, strong performance by business and low interest rates boosted direct investment from 2004 to 2007.[10] Over this period, *foreign investment by Swiss firms* (export of capital) amounted to Sw F 248 billion, almost double the amount invested between 2000 and 2003 (Sw F 140 billion). In 2004 and 2005, exports of capital showed a sharp rise from year to year, mainly because more profits were being reinvested in subsidiaries abroad. In 2006, direct investment reached a new record of Sw F 94 billion. This annual growth can be explained by the large increase in Swiss firms' acquisitions abroad. For example, industry bought several firms situated outside Switzerland. From 2007 onwards, however, this trend weakened and, as a result, direct investment fell in comparison with the previous year. Between 2004 and 2007, the geographical focus of investment activities by Swiss firms shifted. At a figure of Sw F 100 billion, their investment within the EU was twice as high as that between 2000 and 2003. In North America, on the other hand, investment fell slightly in comparison with the previous period and amounted to Sw F 50 billion. Exports of capital to central and South America, as well as to Asia, showed a particularly sharp increase, from Sw F 19 billion to Sw F 46 billion and Sw F 3 billion to Sw F 30 billion, respectively.

[8] See http://www.ezv.admin.ch/themen/00504/01508/index.html?lang=fr.
[9] See http://www.snb.ch/fr/iabout/stat/statpub/bop/stats/bop.
[10] See http://www.snb.ch/fr/iabout/stat/statpub/fdi/id/statpub_fdi_actual.

Foreign direct investment

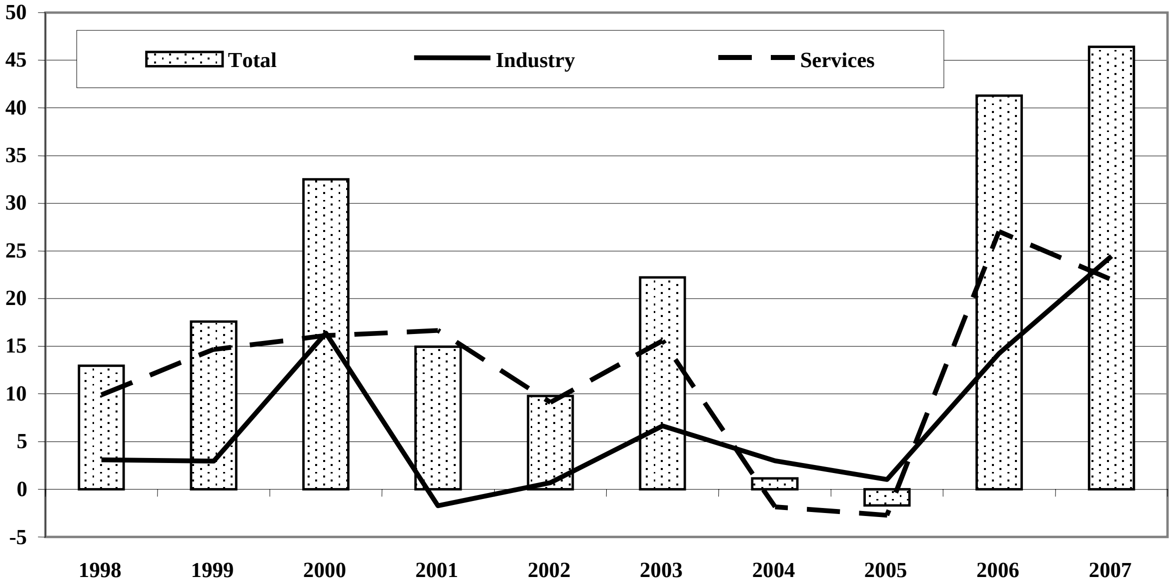
Sw F billion



Source: Swiss National Bank.

Direct investment in Switzerland

Sw F billion



Source: Swiss National Bank.

26. For the period 2004-2007, foreign direct investment in Switzerland (import of capital) amounted to Sw F 87 billion (compared to Sw F 79 billion from 2000 to 2003). American-owned financial and holding companies took advantage of a time-bound tax relief measure in 2000 and 2005, allowing them to repatriate to the United States the profits they had kept in Switzerland in previous years. This withdrawal of capital had a marked impact on direct investment in Switzerland in 2004 and 2005. During the course of the following two years, foreign firms started to reinvest massively in Switzerland. Record levels were reached in 2006 and 2007, amounting to Sw F 41 billion and Sw F 46 billion, respectively. Both of these years were marked by the takeover of a large Swiss firm by foreign investors. Between 2004 and 2007, the largest amount of foreign investment in Switzerland came from the EU, totalling Sw F 98 billion (Sw F 46 billion from 2000 to 2003). North American investors, on the other hand, withdrew capital amounting to Sw F 10 billion from Switzerland, after having invested Sw F 32 billion between 2000 and 2003.

(iv) Macroeconomic policies

27. Swiss *economic policy* gives major priority to a macroeconomic policy environment designed to maintain stability. The Federal Constitution makes the Swiss National Bank (BNS) responsible for conducting a *monetary policy* that serves the country's general interests.[11] The new Federal Law on the Swiss National Bank (LBN, RS 951.11), which came into force in May 2004, defines this responsibility and specifies that it is the task of the BNS to ensure price stability. In doing so, the BNS must take into account the evolving situation. The monetary policy strategy conducted by the BNS in order to fulfil its task consists of three components. Firstly, the BNS considers price stability to be equivalent to an annual increase of less than 2% in the Swiss consumer price index. Secondly, its inflation forecast is based on a scenario that takes into account global economic trends and the hypothesis that the Libor (three months, Swiss francs) at the time the forecast is published will remain unchanged for the following three years. Thirdly, at the operational level, the BNS gives the Libor a target range, which is usually one percentage point, and in general seeks to keep it in the middle of the chosen range.

28. The low interest rate in the early part of the decade - the Libor was 0.25% in 2003 - was unable to guarantee price stability in an economy on the road to recovery. In mid-2004, the BNS took the first steps towards adjusting interest rates. At the end of the year, however, the uncertain economic situation led the BNS to suspend this process. In December 2005, when the indicators showed signs of robust recovery, the BNS resumed its adjustment policy. The Libor continued to rise gradually up to mid-2007. During this adjustment phase, the BNS increased the Libor's target range nine times.

29. In the second half of 2007, the BNS was operating in a new environment. The monetary situation was being managed in such a way as to ensure, on the one hand, that the economy's strong performance did not jeopardize price stability in the medium term and, on the other, to prevent the turmoil on the financial markets from causing a shortage of liquidity. In the autumn, tension on the money market pushed the Libor towards the range's ceiling, tightening the money situation excessively in comparison with the inflation forecast. The BNS then sought to make the market more flexible by bringing the Libor down from 2.9% to 2.75%, while increasing the target range by 25 basis points.

30. During the first half of 2008, increased prices for raw materials, particularly oil and food, as well as an economy where the rate of capacity utilization was high, caused inflation to exceed 2% for

[11] See http://www.snb.ch/fr/iabout/monpol.

the first time since 1993. According to the inflation forecast published in September, mid-term inflation estimates nevertheless remained good (2009: 1.9%; 2010: 1.3%), with the BNS envisaging a downturn in the global economy and in Switzerland over the next few years. In view of this, the BNS decided to retain the Libor target range fixed in September 2007 and is aiming at a Libor of 2.75%.

31. The integration of international markets in general and in Europe in particular has not prevented the BNS from pursuing an independent monetary policy. In 2001 and 2002, the BNS adjusted its reference interest rate - the Libor target range - more rapidly and to a greater degree than the European Central Bank (ECB). In 2003, the BNS halted its shift towards lower interest rates before the ECB and in 2004 it also acted first. While it is true that economic trends in Switzerland are closely related to those in the euro zone, Swiss inflation has always been significantly lower than that in the euro zone.

32. The *Government finance* situation in Switzerland improved during the last parliamentary term as a result of the efforts made to stabilize it, together with the positive economic situation.[12] At the Federal level, after the surpluses recorded in 2006 and 2007, the financial account (excluding extraordinary expenditure) for the current financial year should once again show a large surplus. After reaching a peak in 2005, the debt has shown a marked decrease. This performance can not only be explained by strong economic growth, but also by the budgetary policies adopted by the Confederation. The new budgetary rule, which is *the debt brake*, requires that Federal finances be in balance throughout an economic cycle and it has played a decisive role in improving the situation. This rule made it possible to take the rapid remedial measures needed to deal with structural deficits. The draft budget for 2009 and the financial plan for 2010-2012 submitted by the Federal Council follow the same path to stabilization, envisaging surpluses.

33. It is the Federal Council's intention, in the medium term (2008-2015), *to place a ceiling on the increase in ordinary expenditure* equivalent to the rate of growth in the economy, in other words, to stabilize the State's spending. In order to do so, it is essential to determine strict priorities among the State's responsibilities and to undertake structural reform. These objectives are part of the current review of the Confederation's responsibilities. Furthermore, the aim of the Federal Council's budgetary strategy is *to stabilize the debt in nominal terms*. The debt brake ensures that ordinary expenditure does not exceed ordinary income in the course of an economic cycle. Nevertheless, *extraordinary expenditure* may become necessary in the future and weigh upon the Federal debt. In order to avoid such a situation, if no extraordinary income is forthcoming, the Federal Council intends to achieve a surplus in ordinary income to cover the extraordinary expenditure. To do this, it proposes to introduce into the legislation a *budgetary rule supplementing the debt brake*.

(v) Economic outlook and risks

34. Despite a *noticeable decline*, GDP should continue to grow in 2008 and 2009. The preliminary indicators do not contradict this view. Current forecasts are for growth of 1.9% in 2008, but only 1.3% in 2009. The strength of *internal demand*, particularly personal consumption, should enable this performance to be achieved. The increase in *foreign trade* should also remain positive in 2008 (+2% for exports, +2.5% for imports) and be more dynamic in 2009 (+2.8% for exports and +3.2% for imports).[13]

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[12] See http://www.efd.admin.ch/dokumentation/zahlen/00579/00595/index.html?lang=fr; http://www.efv.admin.ch/f/themen/index.php.

[13] See http://www.seco.admin.ch/themen/00374/00375/00376/index.html?lang=fr.

35. As is the case in other countries, the combination of *lack of confidence in financial markets* and *sharply increasing energy prices* are the main *threats to Switzerland's economic development*. The success of anti-inflationary policies in countries with emerging economies is also one of the keys to stabilizing global growth.

(2) BRIEF SUMMARY OF THE STRUCTURAL REFORMS

36. Since the publication of the "2002 Report on growth", Switzerland has continued to conduct an in-depth study of the causes of its weak economic growth. This led to the introduction of the "Measures by the Federal Council to promote growth" (or simply "Growth package") in 2004. This economic programme focuses on six main areas, namely: (1) competition on the domestic market; (2) economic integration; (3) optimizing the State's efforts; (4) maintaining a high rate of employment; (5) competitiveness in training; and (6) legal conditions that are attractive to companies. In April 2008, the *Secrétariat d'État à l'économie* - SECO (State Secretariat for Economic Affairs) published an evaluation of the 19 measures taken to achieve these objectives.[14] The conclusion was globally positive, inasmuch as only two measures were not implemented within the time-limits (namely, adoption of the measures during the last parliamentary term (2004-2007)). As far as the content is concerned, the most difficult reforms have been those sectoral reforms that affect well-organized pressure groups (for example, health). It is too soon yet to assess the impact which the growth package will have because several important reforms were only adopted in 2007 and their effect will take some time to make itself felt. Nevertheless, in the light of the information currently available, the programme will no doubt achieve its objective of boosting structural growth of GDP by 0.5% annually over several years.

III. MAIN FOCUS OF RECENT AND CURRENT STRUCTURAL REFORMS AND OTHER PRIORITIES OF SWITZERLAND'S ECONOMIC POLICY

(1) DOMESTIC POLICY AREAS

37. The cross-border opening up of markets following the signing of the bilateral agreements with the EU and internal reform (liberalization, giving consumers and the State more choice) all interact. It would seem that the implementation of free movement of persons has had the most impact on competition at the domestic level and on the competitiveness of exports. At the same time, revision of the law on the domestic market and of the law on foreign nationals has made the mobility of services and workers within Switzerland easier. Progress is being made in reforming public utilities such as electricity and postal services, thereby encouraging direct investment. Several other reforms, on the other hand, are of major economic importance but do not have any significant direct effect on foreign trade (tax reform, streamlined administrative procedures, revision of disability insurance, better governance in business, revision of the patent law and reform of the financing of hospitals).

38. The future priorities for trade-related structural reform concern revision of the government procurement law, partial revision of the law on technical barriers to trade, an agricultural free trade agreement with the European Union and continued liberalization of the public utilities. Other reforms should help to boost economic growth in Switzerland without having any direct effect on trade, for example, reorganizing training policy, harmonized development of public infrastructure, a more streamlined administration and the revision of the law on bankruptcy.

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[14] See http://www.seco.admin.ch/themen/00374/00459/00460/index.html?lang=fr&download=NHzLpZig7t,lnp6I0NTU042l2Z6ln1ae2IZn4Z2qZpnO2Yuq2Z6gpJCEeH53gmym162dpYbUzd,Gpd6emK2Oz9aGodetmqaN19XI2IdvoaCVZ,s-.

39. Some of the most important aspects of the reforms already completed or under way and intended to boost the competitiveness of the Swiss economy (Agricultural Policy 2011, revision of the Law on technical barriers to trade, new Law on electricity supplies, new Law on the Federal Financial Market Supervisory Authority, complete overhaul of the postal legislation, revision of the Law on government procurement, implementation of the amendment to the Law on cartels, revision of the Law on the domestic market and new intellectual property-related developments) are described below.

(i) Agricultural policy 2011

40. The *Agricultural Policy 2011 (PA 2011)* is part of the reform process launched in the early 1990s with a view to enhancing the competitiveness and sustainability of the agricultural sector.[15] This reform is based on Article 104 of the Federal Constitution, adopted by a large majority of the people and cantons on 9 June 1996, according to which the Confederation ensures that agriculture, through production that meets the requirements of both sustainable development and of the market, contributes towards the population's food security, the conservation of natural resources, the upkeep of the landscape and decentralized occupancy of the land. Although the context is that of a market economy, this Article recognizes that agriculture's responsibilities are *multifunctional*, that they go beyond simply producing food and should be remunerated through direct payments.

41. The key element in PA 2011 consists of making significant reductions in the financial resources now being used to support the market and to reallocate some of the resources thus released to direct payments that are not production-related. Furthermore, as of the end of 2009, Switzerland will abolish all *export subsidies on all basic agricultural commodities*. The elimination of these subsidies, which are by far the most detrimental to international trade, underscores Switzerland's determination to contribute towards creating a more equitable trading system. This can also be seen from the position taken by Switzerland during the Doha Round negotiations (see also Part IV of this report). Lastly, there will be a sharp reduction in the customs duty imposed on cereals and animal feed. Agriculture will thus be able to provide the public with the goods desired and the adjustments will be made at a pace that permits socially acceptable development.

42. The concept of *direct payments* having proved its worth, it remains at the heart of the future agricultural policy. The review and future evolution of the direct payments system in the light of future developments in the framework conditions are rooted in the current constitutional basis. A report will be submitted to Parliament in 2009.

43. On 14 March 2008, the Federal Council approved the adoption of terms of reference for negotiations with the EU in the agri-food sector. A *free trade agreement between Switzerland and the EU in the food and agriculture sector (AFTA)* should help to open markets up to agricultural products and food. It should lead to the elimination of barriers to trade, whether tariff (customs duties and quotas) or non-tariff (various regulations on production and approval). Free trade will not only relate to agricultural raw materials (for example, milk or livestock for slaughter), but also sectors upstream and downstream such as seeds, machinery or yoghourt. The EU is by far the most important trade partner for Switzerland's agri-food sector. The conclusion of such an agreement will therefore be a major step forward in the reform of Swiss agriculture.

[15] See http://www.blw.admin.ch/themen/00005/00044/index.html?lang=fr.

(ii) Partial revision of the Law on technical barriers to trade

44. Studies have shown that a large number of the technical barriers to trade between Switzerland and the EU, in particular, are a contributory factor in the high level of prices in Switzerland. This is why, in June 2008, the Federal Council adopted a message addressed to Parliament proposing a partial revision of the Federal Law on technical barriers to trade (LETC). The expected revision envisages an impact of over 0.5% on GDP growth for the Swiss economy.

45. Until now, two strategies have been followed in order to eliminate technical barriers to trade with our leading trade partners. On the one hand, the increasing harmonization of Swiss technical requirements with those of the EU, our most important trading partner and, on the other, the conclusion of bilateral agreements with our main partners. Despite these instruments, there are still a large number of technical barriers, particularly with regard to the EU. These not only contribute to the high level of prices but also distort competition in Switzerland. The Federal Law on technical barriers to trade therefore needs to be revised. The purpose of the proposed revision is to lessen the disparity with Community law and to facilitate access to the Swiss market for products that have already been legally placed on the EEA market in areas where technical regulations are not harmonized within the EU or are not yet fully harmonized. Finally, the revision also provides for streamlined approval procedures for products that have already been approved in a country whose legislation is equivalent to that of Switzerland.

(iii) Legislation on electricity supplies

46. The *Law on electricity supplies* (LApEl, RS 734.7) came into force in 2008 and represents an important step forward in the process of reforming the Swiss electricity market.[16] It provides for open and non-discriminatory access to the network (regulated access for third parties). It also creates an independent regulator and an operator independent of the transmission system. The Law requires distribution entities to separate their distribution accounts from their accounts for other activities. In order to overcome fears regarding electricity supplies, the Law also includes provisions on protecting consumers and public service obligations. The Law is largely based on the relevant EU legislation.

47. This Law will open up the Swiss electricity market to competition in two stages. Final users whose annual consumption exceeds 100 MWh. may freely choose their supplier as of 1 January 2009. The first stage of opening up the market will cover approximately 50% of electricity consumption in Switzerland. All final users (including households and small and medium-sized enterprises, SMEs) will have access to the network as of 1 January 2014. Implementation of the second stage will, however, be the subject of an optional referendum.

48. The Law on electricity supplies creates a regulator, the Electricity Commission (ElCom). It will be the ElCom's responsibility to ensure compliance with the Law. In particular, it will monitor access to the network and the requirements for using it. The Law covers the methodology for setting tariffs for use of the network, through which the ElCom will control ex post facto both the level of tariffs for the network and use of the revenue accruing to the independent operator of the transmission system from the sale of cross-border capacity. The Law creates a transmission system operator (Swissgrid) to operate and supervise the national high-voltage network (220/380 kV.). Pursuant to the Law, electricity companies must legally separate the transmission network from their other activities by 1 January 2009 and hand over ownership of the network to Swissgrid by 1 January 2013.

[16] See http://www.bfe.admin.ch/themen/00612/00613/index.html?lang=fr.

49. In parallel with the Law on electricity supplies, the *Energy Law* (LEne, RS 730.0) was revised in spring 2007 in order to increase the tariff for buying renewable electricity-generated output. The revision came into force in 2008. The tariff for buying renewable electricity is much higher than the market price because of the additional costs for producers. If local distributors had to pay these costs, there would be additional costs for final users in areas where a large proportion of the network is supplied by producers of renewable electricity. In order to distribute these costs more fairly among all final users, the Law provides that they should be financed through a surcharge on using the transmission network payable by all users.

(iv) New Law on the Federal Financial Market Supervisory Authority

50. The *Federal Law on the Federal Financial Market Supervisory Authority* (LFINMA) was approved by Parliament during its summer session in 2007.[17] The purpose of the Law is to amalgamate supervision of banks, private insurance and financial intermediaries subject to surveillance under one of the laws on financial markets. The Federal Banking Commission (CFB), the Federal Private Insurance Office (OFAP) and the Anti-Money Laundering Control Authority (Control Authority) will be incorporated into a single entity, the *Federal Financial Market Supervisory Authority (FINMA)*. The creation of an integrated authority constitutes a new organizational approach, whose objective is to reinforce Swiss supervision of financial markets and give the competent authority more power as a partner on the international scene.

51. On 16 January 2008, the organizational provisions of the LFINMA came into force. The definitive commencement of operations by the new FINMA will occur when the LFINMA is fully implemented, planned for 1 January 2009.

(v) Complete overhaul of postal legislation

52. The Swiss *postal market* is currently divided into three components: reserved services, for which the Swiss Post Office is obliged to provide universal services but also has the exclusive right to distribute letters weighing less than 100 g. (monopoly); non-reserved services, which also form part of the Swiss Post Office's universal service obligations but in competition with private operators; and liberalized services. The Federal Council recently proposed to lower the limit of the monopoly to 50 g, through an ordinance, on 1 April 2009. As part of the complete overhaul of the postal legislation currently under way, it is proposed to open up the entire market as of 1 April 2012.

(vi) Revision of the Law on government procurement

53. *Government procurement legislation* regulates an important sector of the Swiss economy. Total spending by communes, cantons and the Confederation on procuring construction services, goods and other services is close to Sw F 34 billion a year. This expenditure - in which the shares of the Confederation, the cantons and the communes are, respectively, 19%, 38% and 43% - corresponds to around 25% of total government spending and 8% of the GDP. There are both external and internal reasons for the current revision of the government procurement legislation with a view to achieving the objectives of modernization, flexibility, clarification and harmonization.[18]

[17] See http://www.efd.admin.ch/dokumentation/zahlen/00579/00607/00617/index.html?lang=fr.
[18] See http://www.bbl.admin.ch/bkb/00235/00362/00375/index.html?lang=fr.

54. The current revision of the 1994 Federal Law on government procurement (LMP, RS 172.056.1) consists of a series of structural measures adopted by the Federal Council to promote the growth of the Swiss economy. This revision should enable annual savings of around Sw F 400 million to be achieved. On the basis of the findings of an analysis of the strengths and weaknesses of the current government procurement legislation, in 2004, the Federal Council decided to modernize, streamline, clarify and harmonize government procurement legislation. With regard to *modernization*, the objective is to utilize new information technology in government procurement. An electronic version of the Swiss Official Trade Gazette will henceforward be the official publication for the Confederation's government procurement. As far as *streamlining* is concerned, the objective is to increase efficiency in order to speed up procedures, for example, in the case of procurement that is complex or where there needs to be dialogue between the procuring entity and the bidders. As regards *clarification*, the revised draft law clarifies certain elements and concepts which, until now, were a source of uncertainty when implementing government procurement legislation. It designates those entities which, in the future, can be classified as public sector contracting authorities and gives a precise definition of the concept of government procurement. In relation to *harmonization*, the revision of the Law aims to attenuate the problem of the disparity between Federal and cantonal rules, which currently affects legislation on government procurement. The Federal Council's draft also takes into account the cantonal competence provided by the Constitution and ensures that cantons thus retain their margin of manoeuvre in their respective areas of competence.

(vii) Implementation of the amendments to the Law on cartels

55. The revised *Federal Law on cartels and other impediments to competition* (LCart, RS 251) came into force on 1 April 2004[19], with a transitional period up to 31 March 2005 to allow companies, where necessary, to adapt their activities to the changes introduced by the revised Law.

56. The main objective of the revision is to impose direct sanctions when infringement of cartels legislation is particularly harmful, which should also reinforce the dissuasive nature of the Law. In 2006 and 2007, the Competition Commission (Comco), for the first time, applied the new provisions of the Law and imposed a direct sanction against a company that had violated the LCart. Zurich airport (Unique) was fined Sw F 101,000 for having abused its dominant position in relation to the car parks at the airport. In 2007, the Comco imposed a sanction of Sw F 333,365,685 on Swisscom Mobile, one of the mobile telephone operators on the Swiss market, for abuse of a dominant position. The same year, Comco also took a decision against Publigroupe, fining the company Sw F 2,500,000 for abuse of a dominant position. Appeals against the latter two decisions (Swisscom Mobile and Publigroupe) are before the Federal Administrative Tribunal.

57. The Comco also took advantage of the new means made available to it under the revised Law to dismantle unlawful agreements. On the one hand, in 2006, the Secretariat conducted its first searches. This investigative method was also used in 2007 on several occasions. In addition, the severity of the sanctions imposed has probably had a dissuasive effect on certain firms. In the course of 2007, several of these had recourse to the clemency programme established under the new Law.

58. The *Federal Law on the internal market* (LMI, RS 943.02), which entered into force on 1 July 1996, has also been revised.[20] The purpose of this Law is to eliminate the public law restrictions on market access introduced by cantons and communes. It should facilitate professional mobility and economic exchange, thus enhancing the Swiss economy's competitiveness. Accordingly, it is a counterpart to the Law on cartels, which combats private law restrictions that distort

[19] See http://www.weko.admin.ch/publikationen/00213/index.html?lang=fr.
[20] See http://www.admin.ch/ch/f/rs/c943_02.html.

competition. The decision to revise the LMI was taken by the Federal Council in 2003. The Council commissioned a group of experts composed of representatives of the Confederation and the cantons to draw up a draft text. The final draft was put before Parliament and adopted in December 2005. The revised Law came into force on 1 July 2006. The revision of the LMI has a threefold economic, individual and institutional objective. At the economic level, it is intended to improve the operation of the domestic market by continuing to eliminate barriers set up by the cantons and local authorities. At the individual level, the objective is to reinforce the freedom to engage in a profession. At the institutional level, the Comco's supervisory responsibilities should be reinforced by giving it a right to appeal against decisions and judgements that unduly restrict market access. The Comco has already made use of this new instrument on three occasions while awaiting the decision of the Federal Tribunal as the final appellate court. Comco's intervention with cantonal and local authorities has on several occasions allowed individuals access to the market and has incited certain authorities to review their decisions and adapt their legal provisions or practices to the requirements of the LMI. It can be seen that the revised law is starting to yield results and that the legislator's determination to make the Swiss internal market even stronger is being achieved.

(viii) Intellectual property

59. The Swiss Government attaches paramount importance to protection of *intellectual property* with a view to constantly promoting research, development and innovation in the corporate sector. Strong protection within a strict international framework alone can justify the enormous research costs in a number of sectors concerned, *inter alia,* with the life sciences. The protection of *geographical indications* is equally essential for both agricultural products and manufactures. This is why recognition and international observance of geographical indications is a priority for Switzerland in order to encourage producers to focus on producing specialty products.

60. With regard to intellectual property, Switzerland affords protection over and above the minimum standards laid down in the TRIPS Agreement. There have recently been three revisions of the legislation. These concerned the Federal Laws on patents, copyright and the protection of new plant varieties. The central element of the revision of the *Federal Law on patents* (which entered into force on 1 July 2008: LBI, RS 232.14)[21] is appropriate protection for biotechnological inventions through patents. Other essential aspects of the revision relate to approval of the Patent Law Treaty (PLT) with a view to harmonizing patent formalities and the *implementation* of the *WTO Resolution on improving the availability of pharmaceuticals in developing countries*.

61. With regard to the revision of the *Federal Law on copyright* (LDA, RS 231.1)[22], which entered into force on 1 July 2008, the first objective is to ratify two agreements of the World Intellectual Property Organization (WIPO). The transposition into Swiss law of the standard of protection provided by the WIPO Copyright Treaty (WCT) of 20 December 1996 and the WIPO Performances and Phonograms Treaty (WPPT) of 20 December 1996 allows copyright to be adapted to technological progress. The disparity between copyright and technological developments has also made it necessary to revise the restrictions on copyright. These were defined in the light of analog technology and were therefore not adapted to a digital environment. This revision has meant that the interests of users and consumers are better taken into account in the legislation. For example, the restriction allowing use of works for private purposes has been revised and the royalties system adapted to avoid overcharging consumers who obtain the works from on-demand services.

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[21] See http://www.admin.ch/ch/f/rs/232_14/index.html.
[22] See http://www.admin.ch/ch/f/rs/231_1/.

62. Lastly, the main objective of the amended text of the *Federal Law on the protection of new plant varieties*, which came into force on 1 September 2008 (RS 232.16)[23], is to adapt the law to the 1991 Act of the UPOV Convention.[24]

63. Regarding the *implementation of intellectual property rights*, the Swiss authorities (notably the Federal Institute of Intellectual Property, IPI) and the economic circles concerned have set up a mechanism for combating infringement and piracy[25] with the aim of providing information on the risks and consequences of such abusive practices and reinforcing coordination in this area between the public and private sectors. Furthermore, provisions on combating counterfeiting and piracy (particularly border measures) have been developed and introduced into the legislation on the principal intellectual property rights (patents, copyright, trademarks and industrial designs).

(2) Foreign Policy Areas

64. Switzerland's concern that policies on reform, liberalization and opening up should be mutually reinforcing can also be seen in the various foreign policy measures taken by the Government during the period under review.

(i) Relations between Switzerland and the EU

65. As far as *European integration* is concerned, Switzerland has close relations with the EU. Contractually, this has meant the following treaties and agreements: in 1972, the two parties signed a free trade agreement (for industrial goods). In 1999, *seven bilateral agreements* were signed on the free movement of persons, land transport, air transport, agriculture, research, technical barriers to trade and government procurement. These agreements came into force on 1 June 2002, enabling Switzerland not only to open up its economy still further and improve its access to the EU market, thus complementing the 1972 free trade agreement, but also to strengthen the euro-compatibility of the technical regulations in Switzerland's economic legislation. The experience of implementing these agreements since their entry into force has been promising.

66. In the course of 2004, Switzerland signed *nine additional agreements* with the EU in order to strengthen its regional links with its main economic partner. These new agreements cover cooperation in the areas of justice, asylum and migration (Schengen/Dublin), taxation of savings, action to combat fraud, processed agricultural products, the environment, statistics, promotion of films, pensions, education, vocational training and youth. They mark the continuation of the bilateral approach adopted by Switzerland after the rejection of membership of the European Economic Area (EEA) in 1992. With the exception of the agreement on combating fraud, which is a mixed agreement and therefore must be approved by all EU States (by 1 June 2008, eight of the 27 EU members had not yet ratified the agreement), the agreements have entered into force.[26]

67. The Swiss Federal Council gives *priority* in its European policy to the *comprehensive implementation* of existing agreements, including their potential for development. The next step will be to decide on continuation of the Agreement on the free movement of persons after seven years' experience of implementing it, as well as its extension to the two countries which acceded in early 2007 (Romania and Bulgaria), in addition to those which acceded in mid-2004. This is a matter for a referendum so the people should be called upon to vote on it in spring 2009.

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[23] See http://www.admin.ch/ch/f/rs/232_16/index.html.
[24] International Union for the Protection of New Varieties of Plants.
[25] See http://www.stop-piracy.ch/fr/home/h1.shtm.
[26] See http://www.europa.admin.ch/themen/00500/index.html?lang=fr.

(ii) Free trade agreements

68. In the context of Switzerland's external economic policy, the *free trade agreements* with its non-EU trade partners, together with its membership of the WTO and the bilateral agreements with the EU, constitute an indispensable contribution to maintaining and enhancing competitiveness and the attraction of Switzerland as an economic centre.[27] By signing free trade agreements, mostly within the EFTA framework, Switzerland aims to give its firms access to foreign markets that places them on an equal footing with their main competitors. In addition, these agreements usually provide more legal security, as well as stability of the framework conditions governing economic relations with the partner States concerned, while at the same time helping to diversify and galvanize Switzerland's external economic relations. The *preferential policy* followed by Switzerland and the EFTA countries is not, however, intended to replace trade liberalization at the global level. It remains a *complement* to Switzerland's commitment to the WTO process.

69. Since 2004, Switzerland has expanded its network of free trade agreements by signing agreements with Lebanon and Tunisia (2004), the Republic of Korea (2005), the Southern African Customs Union - SACU (2006), Egypt (2007) and Canada (2008), bringing the number of free trade agreements within the EFTA framework up to 16.[28] In addition to movement of goods, competition rights and intellectual property, the free trade agreements negotiated within the EFTA framework are increasingly covering services, investment and government procurement.

70. As there is an ongoing trend towards the proliferation of preferential agreements at the international level and in view of the Swiss economy's interests, Switzerland intends to pursue its policy aimed at concluding free trade agreements with non-EU partners. *Switzerland and the other EFTA States* are currently negotiating with Algeria, India, Peru and Thailand. The negotiations with the States belonging to the Gulf Cooperation Council/GCC and Colombia have been concluded as far as substance is concerned. The EFTA States are also in contact with other countries and are even holding exploratory talks with a view to intensifying trade relations and drawing up the bases for a decision on initiating negotiations (notably with Albania, Indonesia, Russia, Serbia and Ukraine).

71. At the *bilateral* level, in May 2007 Switzerland and Japan initiated negotiations on an economic partnership and free trade agreement of broad scope. In addition, Switzerland and China have agreed to consider the possibility of signing a free trade agreement. As a first step, it has been decided that internal feasibility studies should be conducted by both China and Switzerland.

(iii) Cooperation with developing countries and countries with economies in transition

72. Switzerland, as the site of international organizations such as the WTO, the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD) and the International Labour Organization (ILO), is destined to play a key role in *trade-related technical assistance*. This is why since the commencement of the Doha negotiations the SECO has significantly developed its trade programmes and adapted them to the needs of its partners.

73. Switzerland recognizes the importance of a trade policy that is *consistent* with development policy, and this influences both its position in negotiations on trade agreements and its trade-related technical cooperation programme. Switzerland has therefore strengthened and better targeted its

[27] See http://www.seco.admin.ch/themen/00513/00515/index.html?lang=fr.

[28] In mid-September 2008, the full list of EFTA's free trade partners was as follows: Canada, Chile, Croatia, Egypt, former Yugoslav Republic of Macedonia, Israel, Jordan, Lebanon, Mexico, Morocco, Palestinian Authority, Republic of Korea, the SACU, Singapore, Tunisia and Turkey.

existing trade cooperation while at the same time broadening it to include topics such as *competition* and *investment*, as well as other emerging issues such as capacity-building related to standards and technical regulations. As a horizontal objective, the sustainability of programmes that give priority to the *environmental* and *social* dimensions of economic issues is at the heart of all these programmes. In addition, global issues such as *climate change* are becoming increasingly important because trade has the potential to address the challenge effectively. *Trade-related technical cooperation* is based on the following:

(a) Trade policy cooperation

74. The growing complexity of world trade raises important challenges in developing countries, notably for the least developed among them, which find themselves obliged to *build up their institutional* capacity so as to make sure that their voice is heard during negotiations on multilateral and bilateral trade agreements and when *implementing the outcome of the negotiations*. This is why Switzerland supports multilateral initiatives for the least developed countries, for example, the Enhanced Integrated Framework and Aid for Trade. The purpose of these initiatives is to integrate trade into national poverty reduction strategies as a tool for development and better to coordinate the trade-related technical assistance provided by industrialized countries and multilateral agencies.

75. At the same time, Switzerland provides assistance in understanding and *implementing the WTO Agreements*. By acceding to the WTO, many developing countries have underlined the need to build up their trade policy-related capacity. In order to achieve this objective, Switzerland's trade promotion involves a series of activities aimed at creating and supporting specialized services for the authorities in partner countries (for example, Laos, Viet Nam, Lebanon, Tajikistan, Montenegro and Serbia). Switzerland supports programmes that target both the partner countries and "the international role of Geneva", working closely with organizations that specialize in WTO law, for example, the Agency for International Trade Information and Cooperation (AITIC) - Switzerland was at the origin of the AITIC's creation - and the Advisory Centre for WTO Law (ACWL).

76. In order to make progress on issues such as competition and investment, Switzerland is working in partnership with specialized national and international organizations such as UNCTAD (competition policy) and the Federal Institute for Intellectual Property (IPI). Together with partner countries, it identifies needs in order to develop cooperation programmes adapted to each level, thereby helping to build the capacity of public and private sectors, notably by setting up an appropriate legal and institutional framework.

(b) Trade efficiency/international standards

77. One essential concomitant of demands for access to developed countries' markets is improving *trade efficiency and production capacity in general*. Together with the ITC in Geneva, Switzerland is supporting the development of a comprehensive range of services intended for SMEs in developing countries. The purpose of these services, which are provided by local suppliers (export promotion entities or chambers of commerce) is to increase the export capacity and competitiveness of SMEs and to improve their integration into international value-creation chains both for goods and services (for example, tourism). These include, *inter alia*, trade information, training in foreign trade matters, development of products and markets, management of the logistic chain and of production.

78. One other area of intervention intended to enhance the export capacity and integration of SMEs in international value chains concerns programmes which help SMEs to comply with international market standards. In cooperation with the United Nations Industrial Development

Organization (UNIDO), Switzerland has programmes to support local authorities in partner countries in improving quality systems, particularly as regards standards and quality criteria. Better metrology and the introduction of modern test procedures will allow partner countries to determine themselves - using methods recognized at the international level - whether their exports of agricultural products and intermediate products comply with international standards for consumer safety.

(c) Market access

79. The objective of *Switzerland's economic development cooperation* is the gradual integration of developing countries into the global trading system. In order to facilitate *access to the Swiss market*, Switzerland gives developing countries large reductions in customs duty on agricultural and textile goods and even exemption for all other goods. These tariff preferences are of particular benefit to the LDCs, which have been able to export all their goods to Switzerland free of duty and without quotas since 1 April 2007. The "zero tariff" initiative was introduced gradually in three phases in 2001, 2004 and 2007. The *Programme Suisse pour la promotion des importations* - SIPPO (Swiss Import Promotion Programme) is intended for export-oriented SMEs in developing countries or countries with economies in transition. It facilitates direct links between exporters in developing countries and European importers, including those in Switzerland.

(d) Sustainability of exports

80. One *horizontal objective* of particular importance is to promote the efficient use of resources in production, encourage transfer of technology that respects the environment, convince firms to adopt core labour standards and human rights, give priority to exports manufactured using sustainable methods, and in particular in the agricultural sector organic certification and good agricultural practices (GAP). As far as the protection of biological diversity is concerned, several issues are dealt with: access to genetic resources and sharing the benefits from exploiting them, traditional knowledge and geographical indications. In the case of the Climate Convention, Switzerland supports the promotion of pilot projects in the industrial sector through the clean production programme, the exchange of CO_2 emission rights and strengthening Kyoto Protocol related institutions.

81. For many developing countries, the *promotion of organic farming* or *fair trade products* provides a good opportunity to penetrate agricultural markets in Switzerland and the EU, while at the same time helping to increase the local value added of basic and processed agricultural products. In Switzerland, high-quality specialty products with recognized attributes are also a good trade outlet. This is why trade-related technical assistance projects aim to improve market access for such products. In addition to promoting such niche products, Switzerland is taking further initiatives to promote sustainable development in mass markets. Minimum social and environmental criteria are defined in agreement with representatives of interest groups in the various links in the value-creating chain (producers in developing countries, representatives of wholesalers, retailers and the agri-food industry) and with non-governmental organizations.

82. Switzerland spends around Sw F 50 million a year on its *trade-related technical cooperation programmes*.

(iv) Revision of the Customs Law and customs measures

83. The *new Customs Law of 18 March 2005* came into force on 1 May 2007. It takes into account a number of changes and to a large extent provides consistency with customs legislation in the European internal market. At the national level, it addresses the interests of trade and the economy and helps to improve the competitive capacity of the Swiss economy within the European

context and in international trade in goods, *inter alia*, through measures on processing traffic. It covers basic issues relating to customs and tax law and creates modern customs procedures - similar to those in the EU Customs Code. The new Law facilitates the implementation of legislative acts by the Confederation other than acts by the customs. Controlling the movement of persons across customs borders and in border zones receives the same attention as rapid and specific goods traffic procedures. For this purpose, it provides better legal bases and the responsibilities of the Federal Customs Administration (AFD), particularly the Border Guard Corps, are the subject of new regulations. The new Customs Law is published in the Classified Compilation of Federal Legislation (LD, RS 631.0).[29]

84. The *Protocol of amendment to the International Convention of 18 May 1973 on the simplification and harmonization of customs procedures* (RS 0.631.21)[30], signed in June 1999 in Brussels within the framework of the Customs Cooperation Council (now known as the "World Customs Organization"), was approved and ratified by the Federal Council in June 2004 and came into force on 3 February 2006. This Protocol is composed of two parts: the first contains the Protocol itself and the second the revised Convention. The revised Convention contains the body of the text, a general annex and ten specific annexes. The body of the text has general and final provisions. The general annex sets out the basic principles for all the customs regimes that are the subject of the revised Convention. The specific annexes each deal with a particular customs regime - arrival of goods in a customs territory, importation, exportation, customs warehouses and free zones, transit, processing, temporary admission, offences, special procedures and origin - and set out the relevant provisions. The specific annexes are the same as those in the annexes to the 1973 Convention but take into account developments in customs regimes and customs procedures. Switzerland has given a large place to these developments in its new customs legislation. Six specific annexes have been adopted as a whole, three in part only and one (Annex H on offences) has been rejected as it is not consistent with Swiss law.

(v) Government procurement

85. Switzerland took part in the revision of the *WTO Plurilateral Agreement on Government Procurement*, which has been in force since 1 January 1996, and makes the Confederation and the cantons, as well as government-owned firms in the water, urban transport and energy sectors subject to the WTO's rules on awarding government procurement contracts. The revised version of the Agreement of December 2006 lays down the international bases for a government procurement regime that is more modern, more flexible, clearer and more comprehensible. With the exception of the internal harmonization objective - in any case this is linked to the realization of the internal market - the Agreement's revision is aimed at achieving the goals of modernization, flexibility and clarification at the internal level. These new rules under the Agreement will apply in due time to the bilateral agreement concluded between Switzerland and the EU in 1996, in force since 1 June 2002, so as to expand the scope of the 1994 Agreement to procurement by local authorities, the rail transport sector and private firms holding concessions or operating on the basis of a special or exclusive right.[31]

(vi) Export promotion

86. The *comprehensive revision of export risk insurance* of the Confederation, which had been under preparation at the time of the previous review of the trade policy of Switzerland and

[29] See http://www.admin.ch/ch/f/rs/c631_0.html.
[30] See http://www.admin.ch/ch/f/rs/0_631_21/index.html.
[31] See http://www.beschaffung.admin.ch/de/beschaffungswesen_bund/recht_org_zahlen/ivoeb_172.056.5.de.pdf.

Liechtenstein, has in the meantime been completed. Based on the Federal Law of 16 December 2005 on Swiss insurance against export risks (LASRE; RS 946.10), the *Assurance suisse contre les risques à l'exportation* - SERV (Swiss Export Risk Insurance Scheme), an organization independent of the Confederation with its own legal status, replaced the *Garantie contre les risques à l'exportation* - GRE (Export Risk Guarantee Scheme) of 1 January 2007; the SERV[32] is under Federal Council supervision, responsibility lying with the Federal Department of the Economy (DFE) and the SECO being in charge of implementing it. In addition to amendments of a purely organizational nature, the necessary conditions for covering private buyers' risks even without a bank guarantee have been put in place, thereby eliminating a significant disadvantage suffered by Switzerland's exports compared to those of its competitors in other industrialized countries. At the end of its first year of operation, the SERV's performance was positive[33], thus proving that, as required by the legislator, it is able to provide insurance exclusively as a complement to the private economy and is self-financing through premiums adapted to the risk in each particular case.

87. *Export promotion* by the State is based on the Federal Law on export promotion of 6 October 2000 (RS 946.14).[34] Under this Law, every four years the Federal Assembly determines the ceiling for spending on measures to finance the promotion of exports. In September 2007, it decided to continue promoting exports for the period 2008 to 2011, setting an overall spending ceiling of Sw F 68 million. Implementation of measures to promote exports has been outsourced and entrusted to the Osec[35] with the aim of helping firms in Switzerland and Liechtenstein, particularly SMEs, to pursue their current export activities and develop new ones. Complementing private initiatives according to the principle of subsidiarity, the Osec provides firms with general information on markets, the various branches and certain aspects of external economic affairs. It gives them advice on export matters and supports their marketing efforts abroad (participation in fairs). In parallel with its everyday operational activities, the Osec spent two years preparing the refocusing of the external economic promotion programme by 1 January 2008. The result of this refocusing has been to combine under the umbrella of Osec, which has become the "home of foreign trade promotion", export promotion, promotion of Switzerland as an economic centre and promotion of investment and imports for developing countries and countries with economies in transition in order to use existing synergies and enhance the effectiveness of various instruments.

(vii) Other external policy priorities

(a) Environment

88. Switzerland plays an active role in all the international negotiations on the *environment* in order to promote *sustainable development* worldwide. The relevant legal basis for this is the Swiss Constitution (Articles 2 and 54) and the Federal Law on protection of the environment as the principal legislation for environmental protection (LPE, RS 814.01)[36], together with the Federal Council's reports on foreign policy (1993, 2000 and 2007). Switzerland considers that implementing trade-related measures that are both non-discriminatory and non-protectionist within the framework of multilateral environmental agreements is, under certain circumstances, the most effective way of ensuring that environmental objectives are met. The implementation of environmental regulations is

[32] See http://www.serv-ch.com/.

[33] See the 2007 report of the SERV: http://www.serv-ch.com/fileadmin/serv-dateien/Ueber_uns/gb/f/Geschaeftsbericht_2007_f.pdf.

[34] See http://www.admin.ch/ch/f/rs/946_14/index.html.

[35] See http://www.osec.ch/internet/osec/fr/home.html.

[36] See http://www.admin.ch/ch/f/rs/c814_01.html.

chiefly the responsibility of the Federal Office for the Environment (OFEV).[37] The Office considers that environmental policy must also be designed as a policy for managing natural resources and long-term protection of natural capital. Likewise, policies on agriculture, electricity, transport, trade and development aid must automatically incorporate environmental concerns.

89. At the *international* level, Switzerland's objective is to ensure that *environmental agreements* are negotiated and implemented *consistently* while at the same time taking into account *international trade commitments*. It is nevertheless aware of the fact that trade agreements give States a margin of manoeuvre in respect of the environment, a margin that can be used to the benefit of the economy without becoming a discriminatory barrier to trade, for example, through the promotion and transfer of environmental technology. Switzerland cooperates with other governments in order to ensure that the laws governing import and export of goods that might be hazardous to human health or the environment, including hazardous wastes, toxic chemicals, biocides and ozone-depleting substances, are consistent. In this connection, it advocates closer cooperation among the secretariats of the Basel, Rotterdam and Stockholm Conventions and the conclusion of a binding agreement on heavy metals (mercury, cadmium and lead).

90. Switzerland has ratified the major *multilateral environmental agreements*. These cover the *climate*, *biological diversity* and *chemicals*. With regard to the *latter*, the instruments are the Montreal Protocol on Ozone-depleting Substances, the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides used in International Trade (PIC), the Stockholm Convention on Persistent Organic Pollutants (POP) and the Cartagena Biosafety Protocol to the Convention on Biological Diversity. In addition, in relation to *climate*, Switzerland ratified the Kyoto Protocol in summer 2003. Switzerland has undertaken to reduce its emissions of six greenhouse gases by 8% below the 1990 levels. The pivotal element of Switzerland's climate policy is the law on CO_2. This came into force in 2000 but is already being revised with a view to the post-Kyoto period, *inter alia*. In order to achieve the objective of reducing consumption of fossil fuels (overall -10%, combustible liquids -15% and motor fuels -8%), which are enshrined in the CO_2 law, the Federal Council has decided to introduce an incentive tax on CO_2 for combustible liquids. This came into force on 1 January 2008 and for the moment amounts to Sw F 12/tonne of CO_2 equivalent. Firms which reach agreement with the State on the reduction of their emissions of CO_2 may be exempt. They then receive "CO_2 certificates", which can be exchanged in a similar way to the Community scheme for trading in greenhouse gas emission quotas. Collaboration with the EU as a complement to the domestic measures is also envisaged. In connection with the *Biodiversity* Convention, a report similar to the "Stern" report should allow the economic value of biodiversity to be quantified within two years. Switzerland supports such an analysis, as well as the development of a resource mobilization strategy under the Convention that incorporates various sources of financing in a consistent manner and includes existing mechanisms such as the Global Environment Facility (GEF). Switzerland is also considering the possibility of drawing up a national plan for biodiversity-related measures.

91. Since July 2008, Switzerland has made *biofuels* exempt from the tax on mineral oils provided that their ecological and social assessment is positive. In the context of WTO negotiations, Switzerland also supports the establishment of a list of environmental goods for which trade would be facilitated. It is of the view, however, that manufacturing procedures and processes should be taken into account when defining certain environmental goods (biofuels, for example).

[37] See http://www.bafu.admin.ch/index.html?lang=fr.

(b) Core labour standards

92. As regards the promotion of *core labour standards*, at the WTO Switzerland has emphasized the importance of this aspect: it has called for the topics of trade, on the one hand, and social issues, on the other, to be dealt with in a coherent fashion (Singapore Consensus, reaffirmed at Doha in 2001). Switzerland has also made clear that the WTO must deal with trade and not address the question of human rights independently. The WTO - like other international organizations - should confine itself to its areas of competence, while at the same time ensuring that the provisions it develops are consistent with those developed in other international organizations, and vice-versa.[38] Both at the WTO and the ILO Switzerland advocates that horizontal issues such as *trade and social standards* be dealt with *consistently* and globally. It calls for stronger and more effective cooperation between the WTO and the ILO and welcomes the fact that the ILO has observer status at the WTO.

93. Switzerland has recognized the importance of the report by the World Commission on the Social Dimension of Globalization, published under the aegis of the ILO in 2004. The *social dimension of globalization* is an important priority for Switzerland and is part of the follow-up to the Copenhagen Social Summit and the Millennium Summit. In 2005, at the World Summit of the United Nations General Assembly, heads of State or government from over 150 countries undertook to strive for a broad international agenda on decent work with action to be taken at the global, regional and national levels. This commitment was reaffirmed in July 2006 during a high-level discussion at the Economic and Social Council (ECOSOC), which led to a ministerial declaration. The latter acknowledges the importance of the ILO's decent work agenda both as a way of promoting full and productive employment and decent work for all. The Ministers urged United Nations funds, programmes and agencies and invited international financing bodies and the WTO to incorporate the objectives of full and productive employment and decent work for all in their policies, programmes and activities. In order to implement the commitments undertaken by the international community, on 10 June 2008, the International Labour Conference adopted a Declaration on social justice for a fair globalization. Switzerland is strongly committed to this text and will continue to strive for its effective implementation. With this instrument, Switzerland, like other Members, now has a tool for achieving decent work and the social dimension of globalization. The ILO's decent work agenda is a balanced and integrated planned approach that should allow the objectives of full and productive employment and decent work for all to be achieved at the global, regional, national, sectoral and local levels. This integrated approach brings together macroeconomic and microeconomic policies. It covers both supply and demand, company development and not only quantitative but also qualitative aspects of employment. On the basis of the ILO Declaration on social justice for a fair globalization, Switzerland will be able to promote better adaptation of its trade policy and its international social commitments, while at the same time supporting a more consistent and joint approach to the ratification of international labour conventions.

IV. SWITZERLAND AND THE DOHA ROUND OF MULTILATERAL TRADE NEGOTIATIONS

94. The key priorities of Switzerland's external economic policy remain economic openness and continued liberalization of international trade at the multilateral, regional and bilateral levels.

95. At the *multilateral* level, the Swiss Government considers that the trend towards accelerated globalization involves both opportunities and challenges for all stakeholders in international trade.

[38] See also: http://www.seco.admin.ch/themen/00513/01122/01123/index.html?lang=fr&download=NHzLpZeg7t,lnp6I0NTU042l2Z6ln1ae2IZn4Z2qZpnO2Yuq2Z6gpJCEeYR9hGym162epYbg2c_JjKbNoKSn6A--.

The resulting interdependence of economies means closer multilateral cooperation and stronger institutions. In this context, it is the Swiss authorities' view that a *major role must be played by the WTO* in relation to gradual liberalization of international trade, the establishment of rules, rights and obligations governing international trade, and the settlement of disputes.[39] Switzerland also considers it necessary to promote *consistency* between external economic policy initiatives and other government policies both at the national and multilateral levels. This is why it intends to continue playing an active role in favour of a positive outcome to the current Doha Round negotiations.

96. Switzerland believes that Members were close to agreement at the *informal ministerial meeting of the WTO in July 2008*. Even though negotiations on *agricultural modalities and market access for industrial goods* have not yet been successful, a great deal of useful and positive work has been done. For example, the package put on the table on Friday, 25 July 2008, was a compromise acceptable to the majority of Members on a large number of aspects that were nevertheless difficult. In addition, Switzerland considers that the *"services signalling conference"* provided extremely useful indications on Members' intentions. Switzerland also has the impression that the Ministers meeting in Geneva were determined to achieve results. Unfortunately, a number of issues remained unresolved when the negotiations were suspended on 29 July 2008 so that, in the end, there was no time to reach solutions acceptable to all the parties. Moreover, the real value of the services signals remains uncertain.

97. The challenge now is to ensure that the progress made in Geneva at the end of July 2008 is not called into question and to restore the basis of trust among Members needed to allow the negotiations to be brought to a successful conclusion.

98. Switzerland will continue to play an active role in the Doha negotiations so that an ambitious overall result can be achieved. It is in favour of an expanded round that does not simply place emphasis on market access but also improves the current rules, creates new ones where necessary and ensures better consistency between the multilateral trading system and the policies followed in other areas such as the environment and development. Switzerland's position on the various Doha Round issues can be summarized as follows:

99. Switzerland first of all hopes for ambitious results as regards *non-agricultural market access (NAMA)*. In general, it imposes very low customs duty on industrial goods. Its main objective is to improve effective access to United States markets (the second outlet for its exports after the EU) and the markets of countries with emerging economies. It supports the application of an effective formula to lower customs duties and sectoral negotiations on customs exemptions. Going beyond the issue of customs duty, it also considers it important to address non-tariff barriers (unnecessary certificates and controls, etc.).

100. Further liberalization of trade in *services* is in Switzerland's interests and it has already set ambitious objectives in that regard; it would like to see more opening up of specific services markets and the introduction of transparent and reliable regulatory mechanisms whose operation is predictable. The requests addressed by Switzerland to around 50 other WTO Members (including the EU) mainly relate to the following areas: financial services, logistics services, distribution, business services, transfer of managers and experts ("intra-corporate transferees") and access to the temporary market for installers of machinery ("installers and maintainers"). To a large extent, the content of these requests takes into account the level of development of the Member concerned and the size of the market. They are addressed in particular to the EU, the United States and other industrialized

[39] See http://www.seco.admin.ch/themen/00513/01122/01124/index.html?lang=fr.

Members. Switzerland, for its part, is ready to consider any requests it receives and, where appropriate, to extend its market access and national treatment guarantees without however undertaking any commitments under the GATS that are not consistent with its legislation on public services. Switzerland's revised offer in 2005 contains additional commitments in a large number of subsectoral services.

101. Switzerland will also remain strongly committed to ambitious results in the negotiations on *trade facilitation.* It advocates streamlining of customs formalities at the global level to support the development of Members as a whole. The result would be lower transaction costs that would also be beneficial to the Swiss economy, particularly to SMEs. Switzerland welcomes the progress made over the past three years and considers that the draft legal texts proposed by Members of the WTO constitute a sound basis for work. In this area, the major challenge is to determine properly the terms for implementation of the future agreement (including flexibility for developing countries).

102. In relation to *rules*, Switzerland has a systemic interest in strengthening rules in general. It considers that they need to be regularly updated to take into account new developments in the world economy. Switzerland applies neither anti-dumping duties nor countervailing measures. In view of the large number of such cases, however, stronger rules on their use are in Switzerland's interest. While Switzerland has no direct active or defensive interests in the negotiations on *anti-dumping*, it nevertheless intends to ensure that, as a minimum, the existing disciplines on *subsidies* are maintained and that there are no additional exceptions to the current general rules. Regarding *regional agreements*, Switzerland is in favour of examining their consistency with the WTO's rules. This examination should not, however, lead to any limitation of Members' margin of manoeuvre, including that of Switzerland, when concluding free trade agreements so that Members can continue to maintain the specific features of their external economic policy. In this context, Switzerland welcomes the decision taken by Members in December 2006, which has enabled the rules on transparency in regional trade agreements to be defined. This new provisional mechanism represents an important step forward towards greater legal security and transparency and ensures more consistency and reciprocal support between regional trade agreements and the multilateral trading system.

103. Switzerland also considers that one of the cornerstones of a rules-based multilateral trading system must be a *dispute settlement mechanism* that is both extensive and effective. Switzerland will therefore continue to work towards a positive and rapid conclusion of the revision of the Memorandum of Understanding on Rules and Procedures Governing the Settlement of Disputes. During the period under review, Switzerland was not involved (either as a complainant, defendant or third party) in any *dispute settlement* at the WTO.[40]

104. Switzerland, together with the other members of the G10[41], is also ready to continue liberalizing its agricultural sector provided that the non-trade aspects inherent to agriculture such as food security, maintaining the landscape and environmental quality, as well as better protection of geographical indications, are taken into account. The outcome of the Doha Round agricultural negotiations should strike a balance among the three pillars of the negotiation, namely, market access, export subsidies and domestic support. Switzerland is ready to make a very significant effort in relation to agriculture provided that it obtains satisfactory solutions to its main problems. The deepest commitment will be in relation to export subsidies with their total phase-out by 2013. Switzerland has

[40] The last time that Switzerland had recourse to this mechanism was on 3 April 2002. See DS253 United States - Definitive safeguard measures on imports of certain steel products (Complainant: Switzerland).

[41] Switzerland is coordinator of the G10, which comprises members that are net food importers. The members of the G10 are: Chinese Taipei, Iceland, Israel, Japan, Liechtenstein, Mauritius, Norway, the Republic of Korea and Switzerland.

already unilaterally started to implement this reform. The second most important element of this reform undertaken by Switzerland relates to domestic support. In this area, distortionary measures have been significantly reduced.

105. Switzerland is determined to implement these reforms and bind them at the WTO provided that a balanced outcome can be achieved as regards *agricultural market access*. Switzerland will be unable to accept such extensive commitments in this pillar as those in respect of export competition and domestic support. Combining similar commitments on trade-distorting support *and* market access would not be politically acceptable at the internal level at a time when Switzerland's agricultural sector already has to deal with the important upheavals caused by the reform of subsidies. Switzerland continues firmly to reject the concept of "*capping*" agricultural customs duty. A general limitation on customs duty cannot be reconciled with the principle of different tariff structures for individual Members. As the tariff structure reflects the differences in the agricultural production conditions of Members, these must be taken into account. Eliminating differences in tariff structures would have an unacceptable impact on whole sectors of Switzerland's agricultural production. Switzerland also attaches great importance to the issue of *sensitive products*, which should allow a balance to be achieved in market access conditions, particularly in sensitive agricultural sectors.

106. Switzerland has always stated that, in order to be able to accept the high price it will have to pay, and is ready to pay, in relation to agriculture, a positive and concrete outcome will have to be achieved in trade-related aspects of intellectual property rights (TRIPS Agreement), particularly as regards *geographical indications*. As over 100 WTO Members have already stated, the three issues of *registration*, *extension of geographical indication protection*, and the *disclosure requirement* in the context of the TRIPS Agreement must form part of the horizontal negotiating process in the Doha Round. The texts on the modalities must reflect all the principal parameters determined by the Ministers so that a balanced result can also be achieved in relation to each of these issues when the final legal texts of the Doha Round are negotiated.

107. The foremost objective of the negotiations on *trade and the environment* is to make systemic improvements when there is a conflict between trade-related rules and environmental rules. It is also a matter of promoting trade in so-called "environmental goods" by lowering customs duty and reducing the non-tariff measures applied. So-called "environmental services" should also be liberalized. Lastly, there needs to be better exchange of information between the WTO and the secretariats of environmental agreements. Switzerland has ambitious objectives in these three areas and has submitted a list of 153 environmental goods, in agreement with other countries which share its point of view.

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REPORT BY LIECHTENSTEIN

I. INTRODUCTION

1. Liechtenstein is firmly committed to the rules-based, transparent and open multilateral trading system of the World Trade Organization (WTO) and the successful conclusion of the Doha Development Agenda (DDA). The trading system of the WTO is one of the main pillars of Liechtenstein's foreign economic policy since an open and well-functioning multilateral trading system is fundamental to economic growth and development.

2. Succeeding in a globalized world is the challenge which Liechtenstein's economic actors have been facing for decades. As Liechtenstein is poor in natural resources and the local market is extremely limited, Liechtenstein's economic actors had to orient themselves outwards at a very early stage of economic development. The dynamic global markets abroad forced them to improve their productivity and to increase their competitiveness. Therefore, one of the main objectives of Liechtenstein's foreign economic policy is to ensure and to extend non-discriminatory market access. Liberalization of trade at multilateral and regional levels (via WTO and European Free Trade Association (EFTA)) is a high priority of Liechtenstein's foreign economic policy.

3. This third Trade Policy Review of Switzerland and Liechtenstein reflects the developments of the economic union between Switzerland and Liechtenstein during the past four years. Liechtenstein is an integral part of the Swiss customs territory, the two countries form a monetary union, and many other bilateral treaties, such as the Patent treaty, closely link the two countries. This economic union has already existed for about 90 years and constitutes one of the important factors for Liechtenstein's access to the world markets. The Trade Policy Review presents at the same time the integration of Liechtenstein in the European Economic Area (EEA) - the most important pillar for Liechtenstein's economic actors to participate in the European markets.

4. Since the last WTO trade policy review of Switzerland and Liechtenstein four years ago, the Government has discussed the need for structural reforms of the economic environment and developed visions in order to enable Liechtenstein's economic actors to keep fit in a changing globalized environment also in the years to come. Liechtenstein had to incorporate newly adopted *acquis communautaire* (more than 5,200 EU legal acts are relevant for the EEA) and expanded the network of free trade agreements together with the other EFTA Member States. During the last few months topics around the financial centre dominated the discussions within and outside Liechtenstein.

II. TRADE AND ECONOMIC POLICY ENVIRONMENT

5. The Liechtenstein Government focuses on a liberal economic policy with economic actors who have to act self-dependent and with state interventions that are limited to the necessary. All changes of the economic environment that have taken place during the last four years are based upon these principles.

6. In the years 2005-2008, the liberalization process initiated as a consequence of Liechtenstein's EEA-Membership in the second half of the nineties continued and was mostly accomplished in the fields of postal services, telecommunications services and energy services (electricity and gas sector). Structures have been adapted and optimized. In the year 2007, the territorial scope of the Agricultural Agreement between the EC and Switzerland was extended to Liechtenstein. Liechtenstein worked on a new agricultural law with a focus on sustainable agriculture with an entrepreneurial orientation. In

the year 2006, the Trade Act from the year 1969 was completely revised. The aim of the revision was to adjust the Act to the needs of today's economy. Great efforts have been put into the creation of new and the improvement of existing laws in the context of financial services in order to comply with evolving international standards. Special emphasis has been placed on financial services - on the one hand with regard to supervision and on the other hand to establish a vision for the Liechtenstein financial centre (see below).

(1) ECONOMIC GROWTH

7. Liechtenstein's economy is small in absolute terms and export-oriented with a high share of value added in industry and financial services. It looks back on four years of steady growth. However, several recent factors point towards a downward trend in growth figures. With regard to industry these are the slowing down of economic growth of the OECD countries and the high exchange rate for the Swiss franc (Sw F) that tend to decrease growth of demand also for Liechtenstein's economy. In the field of financial services the international financial sector crisis and the tax discussions Liechtenstein has been facing since the beginning of this year curtail expectations for growth. There are also internal constraints for further growth, namely the very low supply of and the high prices for land and property as well as the dried-out labour market.

8. Since 2003, Liechtenstein's economy started to recover from the previous period of stagnation. The GDP increased from Sw F 4,135 million (2003) to Sw F 4,296 million in 2004 and to Sw F 4,555 million in 2005.[1,2] From 2003 to 2004, GNP has grown by 0.4% and from 2004 to 2005 by 9.5%. GNP reached in 2005 Sw F 3,892 million. National income increased from 2003 to 2004 by 0.5% and from 2004 to 2005 by 12.1%. In 2005, national income reached Sw F 3,095 million. In 2005, industry was responsible for 39% of the gross value added, general services for 25%, financial services for 29% and households together with the agriculture sector for 7%.

9. The resident population in Liechtenstein grew from 34,600 inhabitants in 2004 up to 35,356 inhabitants in 2007; 33.6% of the resident population do not have the Liechtenstein nationality; 32,435 employees worked in the year 2007 in 3,495 companies in Liechtenstein. During the years under review, total employment in Liechtenstein steadily increased. In 2007, 50.1% of employed persons in Liechtenstein were daily inward commuters from Switzerland, Austria and Germany. In 2007, 1.1% of the employees worked in the agriculture and forestry sector, 43.5% in manufacturing and 55.4% in the services sector. By international comparison, the very low proportion of agriculture and forestry is striking, as is the relatively high proportion of the manufacturing sector. The services sector is considerably smaller than in other European countries.

10. Industrial direct exports[3] increased from Sw F 2,877 million in the year 2003 to Sw F 3,203 million in 2004, to Sw F 3,227 million in the year 2005 and to Sw F 3,604 million in 2006. The most important export country of Liechtenstein's industry and goods production sector is Switzerland followed by Germany and the United States. According to the export sales of the members of the Liechtenstein Chamber of Commerce and Industry by economic areas, the European Economic Area (EEA) with 46% ranks before Asia/Pacific with 23% and America with 18%. In 2006, 167 branches of the Liechtenstein exporting industry outside of Liechtenstein employed

[1] Liechtenstein does not have more recent GDP figures.

[2] Liechtenstein does not calculate GDP per capita based on population numbers in Liechtenstein as this would yield misleading results in comparison with other countries due to the fact that the Liechtenstein GDP derives to a considerable extent from work done by working personnel domiciled abroad. In 2007, 50.1% of people at work in Liechtenstein were daily cross-border commuters from abroad.

[3] Direct exports without Switzerland.

30,139 persons, almost as many persons as the total of workplaces that exists in Liechtenstein (32,435 in 2007).

11. The total balance sheet of the 16 banks in Liechtenstein increased from Sw F 34,205 million in the year 2004 to Sw F 49,694 million in the year 2007. The client assets under management of Liechtenstein Banks increased in parallel from Sw F 106,989 million in 2004 to Sw F 171,448 million in 2007.

12. Liechtenstein has the same inflation rate as Switzerland (2004: 0.8%, 2005: 1.2%, 2006: 1.1%, 2007: 0.7%). Interest rates remained stable with some slight increases in 2008. There are no figures available reflecting private consumption or investment. The unemployment rate in Liechtenstein reached a maximum rate with 3.2% in 2006. In the current year the unemployment rate is at 2.3% (398 persons in August 2008).

13. The development of the Liechtenstein national budget in the period 2004-2007 was determined by several factors, including the performance on the stock exchanges, which had an effect on the capital reserves. The current expenses surged from Sw F 676.6 million in 2003 to Sw F 853.0 million in the year 2007. Tax income steadily increased from Sw F 674.4 million in 2003 to Sw F 856.9 million in 2007. The overall state income increased from Sw F 793.9 million in the year 2003 to Sw F 992.3 million in the year 2007. In the year 2007, Liechtenstein had for the third time in sequence a positive national budget (Sw F 69.5 million and Sw F 50.9 million for the current budget and overall budget respectively). The "own capital" amounts to Sw F 2.2 billion.

(2) THE ECONOMIC SECTORS

14. Liechtenstein's economy is broadly diversified by sectors, businesses and products. The average value added is very high, based on research and development, qualified expertise, a wide range of high-tech and niche products, strong export orientation, and a highly developed financial services sector.

15. With a population of 35,356, Liechtenstein provides 32,435 jobs (2007); 16,242 (2007) individuals commute daily from the region (Switzerland, Austria and Germany) to their workplace in Liechtenstein. This is 50.1% of the total work force.

16. The primary sector employs 1.1% of the total workforce. The number of employees in the primary sector decreased by 0.3% during the past four years. Two thirds of the gross agricultural return is produced by the dairy industry. Some 90 farms produce 13 to 14 million kg. of milk per year.

17. Liechtenstein agriculture is closely linked with Switzerland. To ensure the same competitive advantages Liechtenstein has introduced in 2007 the same subsidy for dairy cows as Switzerland. On 1 January 2008 the Milk Quota Act has been replaced by the Milk Volume Control Act. This new Act constitutes a time-limited interim step between milk quotas and their complete abolition. In the years under review a new Agriculture Act consolidating numerous existing agriculture laws has passed Parliament. It will enter into force on 1 January 2009. With this new act Liechtenstein reacts to the increasing liberalization of the markets. The agriculture policy focuses on sustainable agriculture with an entrepreneurial orientation. In the year 2007, the territorial scope of the Agriculture Agreement between Switzerland and the EC of the year 2002 was extended to Liechtenstein.

18. As an average over the past four years about 40% of the GDP is the result of value added in industrial production and manufacturing, 26% in the financial services sector, 26% in general services, and the remainder in household, agriculture and forestry. The industry and manufacturing sector counts for 583 businesses (2007). More than 70% of these are small businesses (1 to 9 employees) while 15 companies have more than 250 employees.

19. Liechtenstein has evolved in the last fifty years from an almost purely agricultural State into one of the most highly industrialized countries in the world. The most important branches of the internationally competitive industrial sector are mechanical engineering, plant construction, manufacturing of precision instruments, dental technology, electronic control devices, vacuum, heating and lighting technology, dentistry and pharmaceutical products and food-processing industry. The per capita value of exports is about five to eight times higher than the corresponding value for Germany, Austria or Switzerland.

20. Financial services also constitute an important economic sector in Liechtenstein. 15.2% of persons employed in Liechtenstein worked at the end of the year 2006 in the financial sector. Private wealth management dominates the financial centre today, offering a broad product portfolio. Fiduciary services and private banking account for approximately 80% of the added value generated by the financial centre, while the rest is generated by insurers, the fund industry, independent asset managers and others. The business activities of Liechtenstein financial intermediaries are becoming increasingly international. Globalization has an important effect on the competitive situation of the Liechtenstein financial centre. The most important challenges include the worldwide opening of markets, rapid technological progress, and the accelerating cycles of innovation. These challenges have changed the framework conditions and rules of the game for international competition.

21. In the years under review Liechtenstein's financial centre continued to grow. However, both the subprime crisis on the financial markets - which has only indirectly affected the Liechtenstein financial centre - and the tax controversy in Germany are showing effects for the Liechtenstein financial centre in 2008. At the end of 2007, Sw F 277.72 billion of net asset were managed by the financial sector Liechtenstein. The 16 banks licensed in Liechtenstein managed consolidated client assets of Sw F 201.3 billion of the end of 2007. Investment undertakings also recorded growth. They managed assets amounting to approximately Sw F 30.4 billion as of 31 December 2007. Asset management companies managed Sw F 21.5 billion (2007). A total of 2089 financial market participants domiciled in Liechtenstein operated in the financial centre as of the end of 2007. This represents an increase of 191 financial market participants over the previous year. Most of the growth was attributable to domestic investment undertakings (49%). Asset management companies and insurance intermediaries also accounted for a large share of the growth, with 22% and 17% respectively. The number of notified financial market participants rose from 971 (2004) to 1,634 (2007). These are financial market participants from other EEA countries that operate cross border under the supervision of the Financial Market Authority.

22. The close treaty relationship with Switzerland, the introduction of the Swiss franc as legal currency and the passing of the 1926 Act on Persons and Companies, that allowed for a broad diversification of company forms, as well as an investor friendly tax system, are the foundation on which Liechtenstein's financial centre is built. The accession to the European Economic Area in 1995 acted as a catalyst for a series of fundamental changes and facilitated access to the markets of other countries.

23. As an EEA member, Liechtenstein is obliged to implement relevant EU legislation. Accordingly, banking, insurance, securities and accounting legislation is based on the relevant

EU Directives. Because of the close monetary links with Switzerland, financial institutions are also required to meet the accounting guidelines of the Swiss regulatory authority.

24. Liechtenstein has carried out sustainable reforms in recent years. Since 2000, far reaching legislative projects to strengthen and modernize the financial centre have been realized, including the creation of the Financial Intelligence Unit (FIU) in 2002 and the Financial Market Authority (FMA) in 2005. Other key projects include the total revision of the Mutual Legal Assistance Act (2000), several amendments to the Insurance Supervision Act (2002 and 2005), the Mutual Legal Assistance Treaty with the United States (2003), the Counter-Terrorism Package (2003), the conclusion of the Savings Tax Agreement with the European Community (2004), the revision of the Due Diligence Act (2004) and the Investment Undertakings Act (2005), the creation of the Asset Management Act (2005) and Market Abuse Act (2006), various amendments to the Criminal code, the Code of Criminal Procedure, the Narcotics Act, and the Mutual Legal Assistance Act in the course of implementation of the 2nd Money Laundering Directive and the Palermo Convention (2006), key changes to the Banking Act during the implementation of MIFID and Basel II (2006 and 2007), and the total revision of the Prospectus Act (2007). In June 2008, negotiations on an Anti-Fraud Agreement with the EU were largely concluded. Negotiations on the Qualified Intermediary (QI) status with the United States are ongoing. At present Liechtenstein is preparing the necessary steps (amendments to the Due Diligence Act and Ordinance) for the transposition of the EU Third Money Laundering Directive.

25. The FMA is an independent, integrated financial market supervisory authority operating as an autonomous institution under public law. It reports exclusively to the Liechtenstein Parliament. Banks and Finance Companies, Investment Undertakings (funds), Insurance Undertakings and Pension Schemes, professional trustees, auditors, lawyers, patent attorneys, asset managers, Liechtenstein Postal Service, Currency exchange offices, Real Estate brokers, Traders in valuable goods and auctioneers are supervised by the FMA. In the third year of operation (2007) the entry into force of new laws (Pension Funds Act, Market Abuse Act, Takeover Act, Financial Conglomerates Act) expanded the tasks of FMA.

26. Liechtenstein has a vital interest in the worldwide enforcement of internationally recognized standards to prevent abuse of the financial markets. Liechtenstein's foreign policy therefore pays great attention to the development and international enforcement of uniform rules to prevent and combat money laundering and the financing of terrorism. At the national level, legislative, administrative and other practical measures have been taken in the last years to achieve this goal, and the relevant standards in Liechtenstein have been acknowledged by international bodies. In 2007, Liechtenstein underwent the second Financial Centre Assessment by the IMF. The IMF certified the FMA's effective measures in the fight against money laundering and financial transactions with a terrorist background.

27. Traditionally, the Liechtenstein legal system attaches great importance to privacy. Bank client secrecy protects the legitimate private sphere of every bank client, but not criminal machinations. Liechtenstein is not interested in proceeds of crime, and it does everything in its power to keep criminal machinations away from the financial centre. There are no anonymous foundations in Liechtenstein. Foundations are products on the financial market like any other. Strict "know your customer" rules apply to all financial intermediaries and products in Liechtenstein without any exceptions.

28. Liechtenstein will continue to do everything in its power to remain an attractive business location and to fulfil the highest international standards. With the "Futuro" project, the Government

has elaborated a vision for the financial centre that takes into account the need of the overall economy. The goal is to secure sustainable growth for the long term. The vision is based on the traditional strengths of the financial centre and focuses on private wealth management. In parallel the Government elaborated a revision of the Liechtenstein Tax Act with the goal of adapting the existing tax law to the changing economic and legal environment in Liechtenstein and abroad.

(3) STATE ACTIVITIES

29. The Government of Liechtenstein does provide neither export subsidies, support of research, structural policy nor subsidies to companies with the exception of farms. Furthermore, the Government has no possibility to influence an exchange rate increase of the Swiss franc. The main features of the playing field set by the Government's economic policy are trade laws, sound (mainly positive) budgets, low taxes, stability and reliability of the policy, the creation of high quality educational systems, low administrative burden and a slim and customer oriented public administration.

30. In order to maintain and expand the favourable economic conditions in Liechtenstein the Government participated in the creation of a Competence Centre for Small and Medium-Sized Enterprises (SME) under the direction of the Liechtenstein University of Applied Science. The Centre advises young professionals and companies in the growth phase on business planning and management, arranges contacts with financial institutions, investors or potential business partners. The most important EU programmes, of which Liechtenstein companies are beneficiary, are the 7th Framework Programme for research, technological development and demonstration activities (2007-2013) as well as the Competitiveness and Innovation Framework Programme (CIP, 2007-2013). Liechtenstein pays in total Sw F 19.9 million for the 7th Framework Programme and Sw F 1.3 million for the CIP-Programme. As both programmes started only recently there are no data available on the extent to which Liechtenstein companies benefit of projects funded under these programmes. Liechtenstein has no other national assistance programme.

31. Due to the country's small territory (160 square kilometres) and in view of the high proportion of non-Liechtenstein citizens of the total resident and working population, Liechtenstein regulates new investments (green field investments) and immigration. By regulating foreign direct investments (also for non-resident Liechtenstein citizens) the Government respects the limited territory with its rural character and preserves access to real estate for the resident population. Compared to the last Trade Policy Review of Switzerland-Liechtenstein the portion of non-Liechtenstein citizens of the resident and working population has not changed. Therefore, the Government does not see any leeway to ease restrictions concerning immigration and employment. In view of this specific situation, Liechtenstein has, even in the EEA, been granted special rules concerning the free movement of persons.

III. TRADE POLICY DEVELOPMENTS AND FUTURE POLICY DIRECTIONS

32. The framework of the trade environment of Liechtenstein is outlined by the Customs Union Treaty with Switzerland, Liechtenstein's membership in the European Free Trade Association (EFTA), the EEA and the WTO. These vessels allow Liechtenstein to participate in the multilateral trading system but at the same time to join, as a complementary tool, deeper economic cooperation in regional agreements. So far Liechtenstein has not been involved in any WTO or EFTA dispute case.

(1) THE WORLD TRADE ORGANIZATION (WTO)

33. Liechtenstein is fully committed to the multilateral rules-based trading system and will continue to emphasise the importance of universal broad-based trade liberalization. Liechtenstein strongly advocates the Doha Development Agenda and the Doha Work Programme and remains firmly committed to its successful conclusion. The WTO system has to respond with flexibility to the realities and needs of this century's globalized economy and to the increasingly diverse situations of its members. Improved market access means more trade, and more trade is beneficial to all, developed and developing countries alike. Furthermore, it offers opportunities for an increase in trade among developing countries. The Doha Round also has to be a development round to help developing countries benefit from these new opportunities, taking into account the different levels of their development. The multilateral trading system is a proven vehicle in promoting economic development and growth and is central to the future prosperity of our nations. In the view of Liechtenstein there exists no alternative to the WTO multilateral trading system. The multilateral system has to be strengthened.

34. Liechtenstein is a net food importer. Agriculture in Liechtenstein is more than just food production. The Liechtenstein agricultural sector has in the last decades and years gone through tremendous structural changes. This sector has to be looked at from political, social and environmental perspectives. Non-trade concerns have to be duly taken into account when talking of progressive liberalization steps of this sector. WTO has to allow Members to pursue different objectives with their agricultural policy than only trade. Liechtenstein is of course ready to look into further agricultural reforms as part of an overall liberalization package.

35. As necessary flanking measures for Liechtenstein, the extension of protection of geographical indications to products other than wine and spirits has to be part of WTO rules.

36. Services form an important part of the overall package of the current negotiating Round. Services account for a large part of economic growth, both in industrialized and developing countries. Liechtenstein has handed in a comprehensive revised offer in 2005 and participated in the plurilateral services negotiations meetings.

37. As the outcome of the negotiations should be beneficial to all, Liechtenstein welcomes that specific concerns of developing countries are addressed in all areas of the negotiations.

(2) THE EUROPEAN ECONOMIC AREA (EEA)

38. The Agreement on the European Economic Area extends the single market of the EU to the three EFTA countries Iceland, Liechtenstein and Norway. This means that the four fundamental freedoms of the internal market of the EU, the free movement of goods, services, capital and persons[4], apply within the EEA mainly in the same way as in the EU. In addition, the Agreement includes flanking and horizontal policies in order to strengthen the internal market. The membership entails the obligation to transpose EU single market legislation into national law and to comply with supervisory law standards and principles applicable to the entire EEA. By mid 2008, the overall number of adopted legal acts amounted to more than 5,200 acts.

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[4] In the EEA Liechtenstein has special rules as far as free movement of persons is concerned, by which nationals of EEA States are still subject to a permit from the Liechtenstein authorities to take up residence in Liechtenstein.

39. The EU is the most important market for Liechtenstein's economic operators and the EEA with its four freedoms has given them an appropriate legal framework. As a consequence of this agreement, a large part of Liechtenstein's economic legislation is based on EU law. Mid 2008, Liechtenstein had implemented 99.2% of the relevant internal market rules, which is above the EU average. Liechtenstein therefore meets European standards in the respective areas.

40. In the period 2004-2008, one important development for the EEA was its enlargement following the EU accession of Bulgaria and Rumania. An enlargement Agreement for the EEA was negotiated with the EU, its Member Countries and the new EU Members. Basically, the adaptations to the internal market rules negotiated for these accessions within the EU (transitional periods for the free movement of persons, etc.) have been taken over into the EEA Enlargement Agreement. The three EEA-EFTA States, Iceland, Liechtenstein and Norway co-finance together with the EU projects for the development of Bulgaria and Rumania through their own financial mechanism.

41. The relationship between Liechtenstein and the EU is not limited to the EEA and in the coming years, the cooperation might widen in scope. In 2004, Liechtenstein has concluded negotiations with the EU on the taxation of saving interests. In June 2008, the Liechtenstein Parliament approved the accession protocols signed on 28 February 2008 for Liechtenstein's association in the so-called areas of Schengen and Dublin (open borders, visa, asylum, etc.). Due to delays arising prior to signature by the EU the originally planned association at the same time as Switzerland will no longer be possible. Association with Schengen and Dublin supplements and deepens Liechtenstein's integration in Europe in the areas of justice, home affairs, and asylum. With regard to tax matters, Schengen provides the legal basis to grant legal assistance in cases of fraud relating to both direct and indirect taxes. The negotiations on an Anti-Fraud Agreement between Liechtenstein and the EU and its Member States were largely concluded in June 2008. The agreement strengthens information exchange in the case of tax offences, with respect to both indirect and direct taxation. The Contracting Parties will provide support to the tax authorities in cases of suspicion of tax fraud and similar offences and enhance tax cooperation in general. In addition the agreement foresees the possibility of concluding more far-reaching bilateral rules on cooperation with foreign tax authorities, in the framework of double taxation treaties.

42. The EEA had shown in its past that it offers a stable contractual framework for economic relations with the EU. Adaptations might in particular be necessary, should one or the other EFTA State change its integration policy towards the EU.

(3) THE EUROPEAN FREE TRADE ASSOCIATION (EFTA)

43. Liechtenstein became a full EFTA member on 1 September 1991. Hitherto, Liechtenstein had been covered by the EFTA Convention through a particular Protocol under which the interests of Liechtenstein were taken care of by Switzerland.

44. The EFTA-Ministers signed in June 2001 an updated EFTA-Convention that entered into force on 1 June 2002 in parallel with the bilateral Agreements between Switzerland and the EU. The revised Convention has, on the one hand, updated the original provisions bringing them in line with current trade terminology and, on the other hand, introduced substantive amendments to reflect recent developments such as in the WTO, the EFTA States' respective relations with the EU (EEA Agreement and the bilateral Swiss-EU Agreements) and EFTA's free trade agreements with third countries. The revised Convention has strengthened the cohesion in economic relations between the four EFTA Member States and provides for an enhanced common platform for developing their relations with trade partners around the world.

45. Since the early 1990s, EFTA has established an extensive network of contractual relations with States and Territories in Central and Eastern Europe, in the Mediterranean region and overseas. As of today, the EFTA States have a network of 16 Free Trade Agreements with a total of 20 partner countries and territories around the world: with Canada (not yet in force), Chile (2003), Croatia (2001), Egypt (2007), Israel (1992), Jordan (2001), Lebanon (2004), Macedonia (2000), Mexico (2000), Morocco (1997), Palestinian Authority (1998), Southern African Customs Union (SACU, comprising Botswana, Lesotho, Namibia, South Africa and Swaziland) (2006), Singapore (2002), the Republic of Korea (2005), Tunisia (2004) and Turkey (1991). In April 2008, EFTA and the six Member States of the Gulf Cooperation Council[5] (GCC) finalised their FTA negotiations and in June 2008 negotiations were concluded with Colombia. In addition, EFTA has also signed Declarations on Cooperation covering 11 countries. The FTAs concluded by the EFTA States aim at enhancing mutual market access and ensuring that economic operators are granted non-discriminatory treatment *vis-à-vis* their main competitors in these markets.

46. EFTA is currently engaged in free trade negotiations with Algeria, Peru, and Thailand. In January 2007, Ministers from EFTA and Indonesia decided to set up a working group on trade and investment to prepare ground for negotiations on a free trade agreement. In addition, based on the recommendations by a Joint Study Group, Ministers from the EFTA States and India decided in January 2008 to launch negotiations on a comprehensive FTA between both sides. A Joint Study Group between EFTA and Russia examines the potential for closer trade and investment relations. The final report is expected in the course of autumn 2008. EFTA is also exploring the possibility of starting free trade negotiations with Ukraine, Albania and Serbia. EFTA States continue to assess the need for updating and upgrading existing Agreements with their free trade partners.

(4) CUSTOMS UNION TREATY/ECONOMIC INTEGRATION WITH SWITZERLAND

47. The close cooperation with Switzerland is reflected in many (more than 50) bilateral treaties, the most important of them being the Customs Treaty and the Currency Treaty. The Customs Treaty, in combination with other agreements pertaining to the movement of persons, made possible the abolition of any border or customs control between the two countries. Of equal practical importance to Liechtenstein's economy is the Currency Treaty which forms the legal basis for using the Swiss franc as the official currency in Liechtenstein.

48. The provisions of the Customs Treaty stipulate that the Swiss laws pertaining to customs as well as other federal legislation necessary for the implementation of the customs--free zone are applicable in Liechtenstein. In addition, trade and customs treaties concluded by Switzerland with third parties (with the exception of the EEA countries) also apply to Liechtenstein on the basis of the Customs Treaty. Switzerland is authorized to represent Liechtenstein in relevant negotiations and to conclude such treaties with effect in Liechtenstein.

49. The Customs Union Treaty facilitated the bilateral cooperation far beyond its original scope of application, in particular in the areas of social welfare (health, social security), education (vocational and professional training), transport and environment. The entry into force of the EFTA Convention on 1 June 2002 (see above) has led to an additional integration step in the relations between Liechtenstein and Switzerland.

50. In the period under review Liechtenstein, Switzerland and the European Commission agreed in a tripartite additional protocol to extend the territorial scope of the Agriculture Agreement between Switzerland and the EU as part of the Bilateral I treaties to Liechtenstein. This protocol entered into

[5] Comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

force in September 2007. As differences in standards between Switzerland and the EEA have been further reduced in the past years, a working group has proposed to amend Annex I of the Customs Treaty concerning the Market Control and Surveillance Mechanism (MCSM) that applies to imports subject to customs tariffs or non-tariff requirements that are different in the EEA and Switzerland. The necessary legal steps are expected for 2009.

51. The integration policy both countries choose towards the EU in future may have a major influence on the further development of the existing close links.