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TRADE POLICY REVIEW

SWITZERLAND

MINUTES OF MEETING

Chairperson: H.E. Ms Anne Anderson (Ireland)

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I. INTRODUCTORY REMARKS BY THE CHAIRPERSON

1. The second Trade Policy Review of Switzerland was held on 28 and 29 May 1996. The Chairperson welcomed the delegation of Switzerland, headed by Ambassador Pierre-Louis Girard, and the discussants, Ambassador Booth Gardner of the United States and Ambassador K. Kesavapany of Singapore. As usual, both discussants would speak in their personal capacities and not as representatives of their countries. In accordance with the established procedures, the discussants had made available, in advance, outlines of the main issues they intended to raise.

2. The Chairperson recalled the purpose of the Trade Policy Reviews and the main elements of the procedures for this meeting. The report by the Government of Switzerland was contained in document WT/TPR/G/13 and that of the WTO Secretariat in document WT/TPR/S/13; the main issues to be raised by the discussants were contained in document WT/TPR/W/17. Copies of written questions submitted by three delegations (Australia, Canada and the Czech Republic) had been transmitted to the delegation of Switzerland. If full replies could not be provided during the meeting, supplementary written replies should be provided later.

3. Recalling that intergovernmental organizations could attend meetings of the General Council through decisions taken on the basis of ad hoc arrangements, the Chairperson proposed that the Trade Policy Review Body invite the FAO, EFTA, IMF, OECD, UNCTAD and the World Bank, which had requested observer status, to its next meeting. It was so agreed.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF SWITZERLAND

4. The representative of Switzerland welcomed the opportunity to present the important reforms that had taken place in Swiss trade policy since the 1991 Review. These reforms had been made in response to both changes in the international environment and new domestic policy challenges, and were based on the principle of an open multilateral trading system as stipulated in the WTO Agreements. With the entry into force of the WTO, this Review also covered the crucial areas of services, investment and intellectual property, thus providing a more complete picture of Switzerland's economic policies.

5. After nearly three years of recession, followed by a temporary expansion during 1993-1995, the Swiss economy had virtually reached a standstill in mid-1995, with no sign of improvement. Real household income had fallen in 1995, following a rebound in inflation due to the introduction of value-added tax. Unemployment, at a rate of 4.2 per cent, was unusually high. Public consumption had been stagnant, reflecting efforts to redress the budget.

6. As a result of weak aggregate demand, the Swiss trade balance had been in surplus since 1993. Despite a 15 per cent appreciation of the real effective exchange rate between 1992 and 1995, the volume of merchandise exports had expanded by over 4 per cent in 1994 and 1995. However, import growth had been considerably stronger. Falling revenues in the tourism industry had further contributed to a shrinking current account surplus.

7. Reflecting the liberal nature of Swiss economic policies, the State intervened only in a residual way. Industrial subsidies as defined in the WTO Agreement on Subsidies and Countervailing Measures had amounted to 0.05 per cent of GDP in 1993. Border protection for industrial goods was virtually absent, as witnessed by low tariffs and the absence of quantitative restrictions, anti-dumping or countervailing actions.

8. This policy had resulted in a high level of integration in the world economy, with exports and imports of goods and services amounting to 43 and 36 per cent of GDP, respectively. Switzerland was the world's 13th largest exporter and 24th largest importer of services, and the eighth largest foreign investor. The high share of trade with the European Union - some 60 per cent of merchandise exports and 80 per cent of imports - masked the fact that significant imports from third countries transited through the EU, in some cases undergoing transformation.

9. Despite its enormous flexibility to international trends, he noted that not all sectors of the Swiss economy were equally open. The previous TPR report had underlined certain cartel-induced market failures and highlighted the detrimental effects of Swiss agricultural policy on international trade and internal prices. However, the Swiss authorities had acknowledged the need for reform to improve competitiveness and maintain the country's attraction as a location for investment and job creation. With this in view, the Swiss economy had undergone a variety of reforms. Implementation of the WTO Agreements had led to 16 legislative amendments and one new law on government procurement. Further reforms subsequent to the Swiss people's rejection of the Agreement on the European Economic Area relied in particular on measures to strengthen competition and included new or modified laws on cartels, the internal market and technical barriers to trade.

10. The revised Law on Cartels would bring about important changes in Swiss competition policy. New provisions focused in particular on the prevention of abusive behaviour, based on the premise that certain restrictive practices - such as price or quantity fixing, or market segmentation - were as such harmful and illegal. Under the new Law on the Internal Market, Swiss residents and Swiss-based

companies could offer goods, services and their labour in any canton or commune; this would also benefit foreign suppliers.

11. The Law on Technical Barriers to Trade provided for the elimination of technical restrictions that had impeded imports of many goods. For example, it was now possible for private persons to import cars directly into Switzerland. However, as noted in the Secretariat's report, the positive effects of this law could be thwarted by the practices of certain exporters. These practices, while regrettable, were outside the scope of Swiss jurisdiction and showed that autonomous efforts in this field required, if they were to bear fruit, parallel initiatives at the international level.

12. By allowing for the deduction of taxes on inputs, the recent introduction of value-added tax had reduced costs for exporting firms and would thus improve their competitiveness. Similar effects should result from the new Law on Public Procurement which implemented provisions of the WTO Agreement on Government Procurement. The cantons had adjusted their legislation on an autonomous basis, reflecting the fact that cantonal purchases were financed exclusively by cantonal taxes.

13. To illustrate the scope and coverage of agricultural reforms, the representative noted that more than one third of Switzerland's food requirements were covered by imports. Imports and exports of food amounted to Sw F 7 billion and Sw F 3 billion, respectively. Swiss agricultural policy had as its main objectives the maintenance of a decentralized population structure in rural areas, protection of the environment and landscape, and ensuring an appropriate food supply. For these reasons, Switzerland had at the time of its accession to the GATT negotiated an exemption to Article XI in order to maintain quantitative restrictions. Contrary to indications in the Secretariat report, this was not a waiver as Switzerland had accepted additional concessions in return.

14. Nevertheless, reform pressures had grown since the late 1980s. Tensions between individual farm policy objectives as well as the general objective of increased trade liberalization had inspired a process of policy reassessment. It had subsequently led, in 1993, to the introduction of non-product-related direct payments, as well as the conditioning of financial assistance on the use of ecologically benign production techniques. In addition, substantial price decreases had taken place, reaching 20 per cent for milk, meat, oilseeds and sugar beet, and 10 per cent for cereals.

15. As a result of the WTO Agreement on Agriculture, all border restrictions had been tariffied, export subsidies had been reduced, and domestic support that was subject to reduction commitments had already been cut by close to 20 per cent. Further reforms put up for public consultation in 1995 aimed to improve the competitiveness of Swiss agriculture, reduce government intervention and promote more environmentally friendly activities.

16. The Government was also working towards market opening in a number of infrastructural areas. All telecommunication services and network operations would be opened to competition by 1 January 1998. The postal and telecommunications operators would be separated, with the latter being converted into a partially privatized joint stock company. The new Law on Competition would also apply to this sector.

17. While the effects of the reforms would take time to materialize, particularly with respect to prices, they should eventually strengthen the economy's competitiveness and result in a more open domestic market environment. Internal reforms had to be accompanied by an appropriate framework of external relations. Switzerland thus sought to promote market opening through the multilateral system and to reinforce its links with trading partners, notably the European Union.

18. The representative of Switzerland commented on the need to further exploit the WTO's potential in order to adapt the trading system to current realities. Work in this respect should focus on new sectoral initiatives to reduce border restrictions; further liberalization of services through improvements in Members' specific commitments and wider application of the national treatment principle. The framework of multilateral investment rules should be reinforced to respond to the requirements of a globalized economy; and there was a need for in-depth research in the area of restrictive business practices that could impair market opening and efficient resource allocation. Switzerland would support the widening of the Agreement on Government Procurement to include more participants and activities. In the area of the trade and the environment, Switzerland's objective was to ensure greater coherence between international environmental agreements and WTO rules, and to prevent governments from using environmental measures for protectionist purposes.

19. Since the 1991 TPR, Switzerland had concluded free-trade agreements with central and eastern European countries, Turkey and Israel. The two latter agreements complemented the 1972 Free-Trade Agreement with the EC and the Stockholm Convention (EFTA). Agreements with Egypt, Morocco and Tunisia were under negotiation. Following the Swiss people's rejection of the Agreement on the European Economic Area, Switzerland was now seeking to develop its bilateral relations with the EU. Ongoing negotiations covered the movement of persons; research; market access for agricultural products; technical barriers to trade; government procurement; and ground and air transport.

20. Switzerland's development co-operation policy focused on improving market access for developing countries. A revision of Switzerland's system of preferential tariffs was intended to mitigate the erosion of preferences following the Uruguay Round and further improve the special benefits for the least-developed countries. Switzerland envisaged adopting graduation criteria which had been defined in the OECD context. The changes were expected to take place in March 1997.

III. STATEMENT BY THE FIRST DISCUSSANT

21. The first discussant (Ambassador Booth Gardner) appreciated the opportunity to review one of the world's strongest, most open and competitive economies. Switzerland played a major rôle in the WTO, serving as an example of what can be achieved by embracing open markets. However, at a closer look, various sectoral régimes appeared inefficient, expensive and opaque. Swiss agriculture was productive but very costly, and consumers in Switzerland faced high prices.

22. Too often, manufacturing and services sectors were functioning as exclusive clubs. Cartels and highly integrated vertical concerns represented a daunting obstacle for foreign suppliers. Traditional relations of retail cartels with European companies limited access for non-European exporters. However, the Swiss authorities were aware of these challenges and weaknesses and had taken a number of ambitious initiatives in recent years, including the negotiations on the European Economic Area (EEA) and contributions to the Uruguay Round. He wondered, however, whether the 1993 revitalization programme and the accompanying set of legislative reforms would be sufficient to fight private trade restrictions and de facto cartellization.

23. Noting that 80 per cent of Switzerland's trade was with the European Union, the discussant raised the question whether bilateral negotiations were an adequate alternative to joining the EEA or the EU. He was concerned that a successful outcome could restrict access for Switzerland's non-European trading partners. However, new barriers would not be legitimized by GATT Article XXIV(6) as the negotiations could not be viewed as an extension of the Free-Trade Agreement with the EU.

24. The discussant raised various questions concerning the state of competition in individual markets. How successful would the revitalization programme be in addressing monopolies in agricultural marketing, telecommunications and electricity? Did the Government intend to act vigorously on restrictive practices and how strong would its enforcement powers be? What steps were intended to open cantonal monopolies for fire and natural damage insurance, and the insurance industry in general? What was the Government's policy towards the highly regulated - and expensive - aviation sector? Why had import prices not declined significantly despite the Swiss franc's appreciation in recent years? Was this a sign of insufficient competition? Noting the adverse impact of high levels of farm protection on consumer welfare, he asked whether Switzerland planned to open agriculture beyond its Uruguay Round commitments. Why was the production of potatoes, cereals, sugar and dairy products promoted under the new reform programme for agriculture?

25. Acknowledging current efforts towards genuine reform, he wondered whether these would suffice to prevent Switzerland's - still very high - standard of living from gradual erosion.

IV. STATEMENT BY THE SECOND DISCUSSANT

26. The second discussant (Ambassador K. Kesavapany) highlighted two policy challenges currently facing the Swiss authorities: adjustments in the trade régime following the Uruguay Round and the strengthening of bilateral relations with the EU after the negative referendum on the EEA in December 1992. In addition, Switzerland had to cope with an economic slowdown and a relatively high level of unemployment by its own standards. Nevertheless, the economic fundamentals remained strong, with low inflation and healthy export growth.

27. The Swiss economy was suffering from a number of structural problems and constraints. The high degree of cartellization prevalent in the Swiss economy was outmoded, as was the country's excessive reliance on municipal and cantonal independence. He quoted a recent report, issued by a large Swiss bank, which emphasized the need to reduce domestic prices and costs to internationally competitive levels and reconsider policies in the areas of cartels, agricultural protection, import monopolies and foreign labour. The report highlighted myriad regulations in Switzerland which affected the construction and property markets, and criticized Switzerland's tax régime as relatively unattractive for holding companies. The report also suggested that import liberalization might help to counteract the upward pressure on the franc.

28. The discussant noted the authorities' strong interest in questions of market access for goods and services, investment and competition, intellectual property, government procurement, and trade and the environment. Switzerland also intended to contribute to WTO activities in areas such as regionalism; the interaction between trade, monetary and financial policies; and the relationship between the trading system and internationally recognized labour rights. Agriculture, which should be a priority area of attention, had not been referred to in this context. He asked for additional information on the Government's "Agricultural Policy 2002" project and on the ongoing negotiations with the EU. All results should be implemented on an m.f.n. basis.

29. The Swiss authorities had enacted a number of laws to strengthen the economy and help it to adjust to the consequences of globalization. The reforms described by the representative of Switzerland would hopefully result in further opening to competition. Switzerland's liberalization policies, complemented by efforts to maintain traditional standards of excellence and quality, would be keenly watched by WTO Members.

V. STATEMENTS BY MEMBERS

30. Members of the TPRB noted the Swiss economy's strong integration in the world economy and commended Switzerland's rôle in the WTO. The trade régime for industry was open and transparent, characterized by low tariffs and the absence of any form of emergency trade protection.

31. The representative of the Czech Republic emphasized in particular Switzerland's support for the multilateral trading system and its recent efforts to enhance competition and remove obstacles to factor mobility and trade. Losses in competitiveness highlighted the need for structural reform. The two words most frequently used with reference to the Czech economy, transformation and transition, also applied to Switzerland in a globalized world economy.

32. He appreciated the steps taken to implement Uruguay Round requirements in agriculture, although the authorities had generally sought to expose Swiss farmers only to a modest reduction in protection. The recent expansion of tariff quotas for white wine confirmed their intention to expose national production to international competition. However, this contrasted with very high out-of-quota duties for certain farm products, including butter, which impeded market access. He hoped that Switzerland would take additional steps in these areas.

33. The representative of Canada noted the divergence between a liberal trade régime for most segments of industry and services and a highly controlled and protected agricultural sector. A few particularly competitive sectors provided the bulk of Switzerland's export revenue. The import structure was more diversified and, given the low level of border protection, imports should play a predominant rôle in ensuring effective domestic competition. However, high prices suggested that this rôle was not entirely fulfilled and that the country's import propensity was lower than under competitive conditions. He thus saw a need for measures to de-cartelize the economy, reduce the number of regulations, simplify and harmonize norms, and abolish monopolies in certain services sectors.

34. The first candidate for reform should be agriculture. It was worrying that the total level of income subsidies for farmers was expected to increase in the context of "Agricultural Policy 2002", contrasting with a worldwide trend of declining support and contradicting the philosophy underlying the WTO Agreement on Agriculture. How was it possible to justify an average farm tariff of close to 100 per cent? The increase in food tourism also highlighted the need for adjustment. The "prise en charge" system was questionable under the TRIMs Agreement and amplified economic distortions by creating an artificial demand for local products. The pricing policy for cereals ran counter to any notion of competition. The exclusion of agriculture from Switzerland's preferential agreements further increased relative protection afforded to this sector and raised questions with regard to GATT Article XXIV.

35. The representative of Australia stressed the contrast between an open trade régime for industrial products and high continuing levels of assistance to agriculture, characterized by an average tariff of over 80 per cent. The "Agricultural 2002 Policy" initiative, while aiming towards more competition, continued to promote certain farm sectors with high levels of support. The use of the "prise en charge" system was questionable; it had not prevented the fall in agricultural incomes. Switzerland's livestock and meat sector operated behind impenetrable barriers and, as a result, covered over 90 per cent of domestic consumption of beef, veal and pork. Swiss beef prices exceeded EU prices by as much as 60 per cent. The focus of tariff reductions carried out in the Uruguay Round had been on areas with limited domestic production.

36. She noted a significant change in economic conditions since Switzerland's 1991 TPR and commended initiatives aimed at removing regulatory distortions, streamlining government, and reducing interference in individual markets. Reforms in intellectual property legislation and competition law were equally welcome. However, it was necessary to accelerate the pace of change, given that consumers continued to suffer from high domestic prices which exceeded the EU average by almost 50 per cent.

37. The representative of New Zealand noted his country's long-standing interest in the Swiss agricultural régime; sheep meat represented 40 per cent of New Zealand's exports to Switzerland. He shared the concerns expressed about significant distortions in Switzerland's farm policy régime. Four fifths of farm incomes resulted from policy intervention, the highest ratio in the OECD area. Switzerland was, nevertheless, the world's fourth largest exporter of cheese, relying on subsidies provided by a semi-public body whose losses were covered by the Confederation. He asked why the Swiss Cheese Union had not been notified as a State-trading enterprise, and wondered whether the Unions' operations met the requirements of Article XVII. Extremely high tariffs on products such as butter which kept imports to negligible levels highlighted the need for further policy reform. Due to export subsidies, the Swiss consumers could buy Swiss cheese 25 per cent cheaper across the border in France. He felt that the "prise en charge" system in its current form might fall within the scope of the TRIMs Agreement; it could be considered to violate Article III of the GATT and Article 2 of the TRIMs Agreement. The system limited the range of possible commercial partners to processors and had already been considered GATT-inconsistent in regular reviews of Switzerland's Protocol of Accession under GATT 1947. Switzerland had now lost the cover which the terms of that protocol had provided. The tariff quota arrangements for wine also demonstrated the need for liberalisation; that for white wine had been filled in one and a half days at the beginning of 1996, preventing a large number of foreign suppliers from participating; he thus welcomed the decision to halve the out-of-quota tariff for white wine.

38. The Swiss Cartel Commission had limited capacity to conduct effective competition policy, notably in services sectors. This was reflected in a large number of exclusivity arrangements. The new Competition Law appeared to be less stringent than relevant EU legislation. He urged the Swiss authorities to persist with their reform efforts.

39. The representative of the European Union stressed the close relationship between the EU and Switzerland, regretting that Switzerland had not joined the European Economic Area. Switzerland demonstrated that economic integration was possible not only with neighbouring partners, but with countries throughout the world. He appreciated the ongoing process of legislative reform, including the faithful implementation of Uruguay Round commitments. Switzerland's forward looking concept for the Singapore Ministerial Meeting was close to EU priorities, notably in the areas of investment and competition.

40. He felt that it might be premature to judge recent domestic reforms as they had not yet borne fruit. Switzerland was currently at a crossroads; its next TPR would therefore be of particular interest. He asked whether the announced liberalization of telecommunications would ensure non-discriminatory market access and, referring to air transport, whether Switzerland would fully liberalize ground handling services.

41. The representative of the Slovak Republic noted that Switzerland had never had recourse to quantitative restrictions, safeguards, anti-dumping or countervailing actions on industrial imports. Like other delegations, he appreciated the revitalization programme which, however, had not facilitated access to Swiss land and labour markets. Certain investment restrictions and exclusive agreements under intellectual property legislation had also persisted. He called for significant improvements in agricultural tariff quotas and emphasized the rôle of trade liberalization in overcoming economic stagnation.

42. The representative of the Philippines, speaking on behalf of the ASEAN countries, welcomed recent economic reforms which should facilitate the entry of new producers and traders. The process of standards harmonization with the EU should take into account the provisions of the WTO Agreement on Technical Barriers to Trade. Import charges on coffee, cocoa and rice, used to finance minimum stocks, appeared to serve protectionist purposes. Tariff escalation affected imports of textiles, clothing, basic chemicals and rubber products. He felt that Switzerland's trade and economic policies were over-concentrated on European countries and tended to ignore attractive commercial opportunities elsewhere.

43. The representative of Romania joined others in commending Switzerland for its participation in the WTO, the absence of emergency trade protection, and for recent domestic reforms. He enquired about the import régime for meat and poultry, and its compatibility with WTO rules. Switzerland's technical assistance activities, including support for trade policy courses, were laudable.

44. The representative of Chile considered that specific duties increased tariff protection against low-cost imports which were frequently supplied by developing countries. This might have distorted the regional pattern of Switzerland's imports to the benefit of developed countries. A case in point was agriculture, where he also called for a more liberal and environmentally benign approach. While new competition and standardization policies should help to reduce protective barriers, certain weaknesses remained. There was no general prohibition of cartel activities and, for public interest reasons, certain State-trading enterprises were partly exempt from competition rules. Switzerland maintained restrictions on foreign investment which no longer existed in many developing countries.

45. While acknowledging a liberalization trend in services sectors, he pointed to continued restrictions on purchases of real estate, nationality requirements for senior executives, restrictions on the movement of labour, and various exclusivity agreements. Switzerland's offer in the negotiations on basic telecommunications did not reflect its domestic plans for deregulation in 1998. In financial services, only 11 per cent of the Swiss-based enterprises were under foreign controls. He called for the liberalization of cross-border supply of insurance services as a means to increase competition in the sector.

46. The representative of Argentina considered that for important agricultural products, Switzerland's tariff reductions had been extremely modest. The minimum WTO reduction rate of 15 per cent applied to meat, apples, pears, durum wheat, barley, and soybeans, contrasting with high tariff cuts on products which already enjoyed minimum protection. The main access advantage consisted of the opening of 28 tariff quotas. He also expressed concern about the "prise en charge" system, taking note of Switzerland's assurances in other fora that the system would not imply any additional restrictions and that the tariff quotas would be entirely filled. He wondered why Switzerland had not tariffed its import charges on poultry; charges levied for the maintenance of security stocks should have been scheduled under "other duties and charges".

47. He shared the view that cartels and excessive regulations in industry prevented Switzerland's liberal border régime from translating into competitive prices. Given the country's abundant capital base, it could afford to rely far more strongly on the concept of competition and efficiency than on security and stability. Recent reforms were a step in this direction, but should be accompanied by the abolition of all exclusivity arrangements affecting production and trade. The State was present in a number of services activities, as witnessed by the existence of one single national broadcasting enterprise. He asked how the concept of effective competition would apply in practice, and whether internal liberalization policies would eventually address current access limitations to Swiss capital, land and labour markets. It was a positive sign that, in certain services, Switzerland now allowed entry

of specialists of a foreign enterprise without commercial presence, if the company had concluded a service contract with a client in Switzerland.

48. The representative of the United States joined other delegations in expressing concern about the lack of competition in Swiss agriculture and asked for further details about the "Agricultural Policy 2002" initiative. He enquired whether Switzerland had modified or expanded the preferences extended to the EU in agriculture and whether this had been notified to the WTO. He criticized the continued operation, until 1999, of discriminatory excise taxes on alcoholic beverages and sought details on Switzerland's efforts to adopt international standards; any steps to facilitate the granting of visas and work permits to foreigners; intentions to ease restrictions on the purchase of real estate; deregulation in sectors subject to state trading or exclusive rights; the separation of the regulatory and operational functions of the Swiss PTT; the allocation of revenue collected as remuneration from widespread use of copyrights to foreign and related right holders; current preparations to implement and enforce the new Competition Law; the penalties and sanctions provided for under the Law; and the possibility for the Competition Commission to act against certain abusive practices in merger cases. In the latter context, he also enquired whether monetary sanctions had actually been imposed by the Commission in recent cartel cases and whether the overview of the Commission's activities given in the Secretariat's TPR report was complete.

49. He noted high levels of government intervention in areas such as telecommunications, parcel services, public transport and certain insurance services, and shared concerns about the potentially adverse effects of Switzerland's preferential relation with the EU on extra-European partners. In this context, had there been any modifications to the 1972 free-trade agreement with the European Communities? In this view, GATT Article XXIV(6) would not legitimize the extension to Switzerland of more restrictive EU policies in non-tariff areas. He felt that Switzerland had not yet fulfilled all WTO notification requirements, including those under the Agreements on Import Licensing, Technical Barriers to Trade and Customs Valuation. Since compliance with notification requirements had become a concern in the WTO, he felt that notifications should be systematically recorded in TPR reviews.

50. The representative of India complimented Switzerland for its exemplary management of economically important sectors, notably in the services area. However, he was concerned about the low level of domestic competition; the two major retail chains tended to discourage new market entries. Noting that Switzerland's trade relations were geographically concentrated on Europe, he encouraged the authorities to extend the coverage of the GSP scheme to products such as walnuts, cigars and raw coffee and to improve access for textiles and clothing items.

51. Like other delegations, the representative of Hungary wondered why import prices had not declined in line with the Swiss franc's appreciation. He called for an ambitious programme of tariff reduction in agriculture, and a streamlining of monopolies in agricultural marketing. The initiative to pre-announce seasonal tariffs and tariff quotas was a positive step. He considered that Switzerland's bilateral and multilateral trade policy approaches were mutually supportive.

52. The representative of the Republic of Korea noted that 80 per cent of Switzerland's technical regulations were Euro-compatible and enquired about plans to harmonize the remaining 20 per cent, notably in areas such as electro-magnetic and telecommunications equipment. He asked for more details on the requirement that only Swiss citizens could act as chief representatives of joint ventures and branch offices, and wondered about the underlying rationale.

53. The representative of Japan considered that the impending changes in competition policy could promote sales of foreign products as well as inward investment in Switzerland. In this context, he also

encouraged the authorities to abolish restrictions on labour mobility such as residence requirements for senior executives, time limits of three months for the stay of foreign executives, and lengthy cantonal procedures hindering recruitment of foreign staff. These obstacles also affected government procurement of such services as advertising, consulting and finance, and discouraged foreign construction companies from competing in Switzerland.

54. Cantonal regulations for reasons of human, animal or plant health might constitute unnecessary obstacles to trade. He questioned the compatibility with the TRIMs Agreement of preferences for local and European suppliers of audio-visual services, and sought further details on the assessment of fiscal duties on imported as against domestic cars and car parts. He also expressed interest in the possibility, currently envisaged by Switzerland, of concluding reciprocal agreements to guarantee international exhaustion of intellectual property rights. Would such provisions automatically be extended on an m.f.n. basis?

55. The representative of Egypt noted the important rôle of technical co-operation in Switzerland's external relations with developing countries. He asked for more information on the envisaged changes to the Swiss GSP scheme and on the administration of tariff quotas on fruit, vegetables and flowers.

56. The representative of Norway commented that the perceived conflict between Switzerland's industrial and agricultural trade policies reflected a political decision which had been taken in the light of European history. He was confident that, over time, Switzerland would successfully adjust its farm policies.

57. The representative of Poland enquired about: the causes underlying significant regional unemployment differentials in Switzerland; future changes of the real effective exchange rate in the context of European monetary unification; and the reasons for the recent fall in Switzerland's trade surplus. Given that two thirds of Switzerland's current account surplus was attributable to non-factor services, he sought further information on the main components of this segment.

VI. REPLIES BY THE REPRESENTATIVE OF SWITZERLAND AND ADDITIONAL COMMENTS

58. The Chairperson invited the representative of Switzerland to focus his response on five main themes: (i) the economic fundamentals and structural reforms under way; (ii) the agricultural sector; (iii) competition policy; (iv) regional and preferential arrangements; and (v) other sectoral issues, including services.

(i) The economic fundamentals and structural reforms under way

59. The representative of Switzerland expected that Swiss GDP would grow at 0.3 per cent in 1996, clearly contrasting with the strong expansion of the 1980s and confirming that economic adjustment entailed costs. The sectors which had been described as protected were not escaping adjustment; ongoing reforms in agriculture, health, transport and public administration weighed on the pace of overall economic expansion.

60. The current account surplus was proof that Switzerland had maintained its competitiveness; the surplus relied mainly on tourism, banking services, international trade and transport. The large number of employees in Swiss companies operating abroad confirmed that Switzerland was not at all concentrating its activities on neighbouring countries. Both exports to and investments in Asian countries were growing dynamically. In addition, there was a trend to take advantage of favourable production costs in the transition economies of central and eastern Europe. In these circumstances, it was not surprising that income developments in the affected domestic sectors had not contributed to rekindling internal demand.

61. The strength of the Swiss franc mainly reflected external factors, such as the prospect of European Monetary Union. The Italian-speaking region of Switzerland had particularly suffered from the lira's depreciation, partly explaining current growth disparities between the cantons. He did not expect greater currency instability once EMU was fully operational, given its focus on price stability. Switzerland was currently meeting the Maastricht criteria.

62. Following the introduction of VAT, households had born the brunt of adjustment while investment was expanding rapidly. This expansion was a good sign in principle, although it was clear that companies were rationalizing their operations. Employment insecurity could thus affect private consumption. He was confident, however, that Switzerland's current short-term interest rates of 2 per cent, coupled with monetary expansion exceeding 10 per cent, would provide the basis for economic recovery in 1997.

63. The volume of imports had increased dynamically in 1994, at over twice the rate for real export growth. The overall effect on the trade balance had been mitigated by the Swiss franc's appreciation. In his view, high domestic prices mainly reflected the prices for non-traded goods, with the level of rents particularly high relative to the EU average. As sales margins frequently represented up to 50 per cent of consumer prices, the costs of non-traded inputs had a strong impact on price levels. He agreed, however, that falls in import prices should translate more rapidly into lower consumer prices once the structural reforms were fully implemented.

64. The reforms were set to continue after the introduction of the new laws on competition, the internal market, and technical barriers to trade. The abolition of monopolies, guaranteed margins and other forms of State intervention in agriculture should directly benefit consumers. Liberalization should also lead to price reductions in the telecommunications sector. Continued deregulation would help to reduce the administrative burden faced by small and medium-size enterprises.

65. While it was true that 80 per cent of Switzerland's technical regulations were Euro-compatible, they also took into account existing international norms. The conformity of every new technical regulation with the WTO Agreement on Technical Barriers to Trade was systematically examined. The guiding principle, anchored in the new Swiss law, required that a regulation not be more trade-restrictive than was required to meet its underlying health, environmental, security or other objectives. Remaining regulations concerned areas where harmonization was either under way or where no international or EU regulations existed.

66. Switzerland had traditionally levied specific duties and did not intend to change the system. The ad valorem incidence of specific duties on industrial goods had also been bound in the Uruguay Round Schedule in order to provide more transparency and predictability. Given the low level of duties, the tariff system did not represent an important obstacle to trade, even for bulky and inexpensive goods. Tariff escalation occurred at very low tariff levels, which would be further reduced during the Uruguay Round implementation process.

67. Switzerland's GSP system provided duty-free entry for all industrial products from least-developed countries (LDCs). More advanced developing countries enjoyed similar treatment with the exception of textiles, where m.f.n. tariffs were reduced by 50 per cent. In addition, about half of Switzerland's tariff lines for agricultural products, at four-digit level, carried preferential rates (duty-free for LDCs). The announced reform of the GSP system should result in duty-free in-quota access for most agricultural products exported by LDCs. Improved access would be provided for melons, pineapples, figs and raw cane sugar, and efforts would be made to reduce tariff escalation for food products exported by other developing countries.

68. The second discussant called attention to cantonal regulations that continued to affect internal market integration and, thus, cost efficiency in the health and education sectors. The representative of the United States asked whether any studies had been made on the effects that increased transparency in the banking sector would have on exchange rates. The representative of Norway enquired whether the expectation of a recovery in 1997 was based on cyclical factors or rather on the results of structural adjustments currently under way.

69. The representative of Switzerland agreed that there were specific economic constraints which resulted from Switzerland's unique political system. These constraints reduced the flexibility to adjust. The new Law on the Internal Market was aimed at increasing professional mobility, notably through the mutual recognition of professional certificates. However, as far as public services were financed by cantonal taxes, the central Government's influence to reduce costs was limited. The Swiss banking sector was already transparent, and further moves towards transparency should not be at the expense of depositors. Banking secrecy was not stricter in Switzerland than in most industrial countries; capital inflows mainly reflected Switzerland's reputation for monetary prudence. The expectation of a recovery in 1997 relied mainly on prospects of stronger growth in main export markets.

(ii) Agriculture

70. With a share of 2 per cent of GDP, agriculture represented a relatively minor part of the Swiss economy. The self-sufficiency ratio, at 65 per cent, was one of the lowest of industrialized countries; farm expenditure represented 9 per cent of the Federal Budget. Reforms under "Agricultural Policy 2002" aimed at restoring market mechanisms well beyond the commitments made in the Uruguay Round. One of the main objectives was to decouple price and income policy; ecologically motivated direct payments were expected to increase most strongly. The reforms were expected to result in consumer savings of Sw F 1.4 billion. Between 1995 and 2002, public expenditure on price and market

support would decrease by Sw F 500 million. He reminded delegations of the non-trade objectives of Swiss farm policy, including the maintenance of a decentralized population structure and the protection of the landscape.

71. Tariffication had represented a fundamental policy change. The relevant tariff quotas were being filled, with imports exceeding the quota volumes in many cases. Commitments to reduce internal support over the period to 2000 had nearly been met. Export subsidy ceilings had not been reached in 1995 for most products, in particular dairy.

72. The "prise en charge" system was one method of allocating imports under the tariff quotas that had been agreed upon in the Uruguay Round, and did not violate any of Switzerland's obligations under the WTO. The system did not operate as an additional trade barrier, and had no influence on prices, quality or the choice of origin. Tariff quotas in Switzerland could not be allocated to domestic producers benefitting from "prise en charge". They were allotted to processors only for products that required further transformation, such as durum wheat, bread-flour, secondary cereals for human consumption, some meat and frozen vegetables. The ratio of domestic purchases to imports was modified according to the market absorption capacity, but never operated in a way to prevent the quotas from being filled. There were no intentions to abolish the "prise en charge" system.

73. Imports of poultry were covered by the "prise en charge" system. Firms not wishing to purchase domestic production could instead conclude a private contract and pay a contribution to the domestic poultry production support fund. These contributions had not been tariffied, but included in the Aggregate Measure of Support. Auctions were used to allocate tariff quotas for meat and pip fruit; they were a transparent, efficient and equitable way for the Government to capture importers' rents. Like the "prise en charge" system, auctions could not as such be considered a trade measure.

74. The administration of tariff quotas for seasonal products was efficient, and 145 per cent of the quota for cut flowers had been filled in 1995. Many products were subject to a mixed system involving several methods of quota allocation. Imports of animal feed were subject to automatic licensing and minimum stock requirements. Fodder prices had been reduced progressively, as had been the case for the applied import duties which were below bound rates. Imports of bread-flour were unlimited under the "prise en charge" system. A different quota allocation method for wine was under consideration in Parliament.

75. "Agricultural Policy 2002" would be the subject of a communication to Parliament in mid-1996, and was expected to enter into force on 1 January 1998. It provided continued support for the production of sugar and cereals; however, there was a marked decline in government intervention. Government-set production ceilings for beet sugar would be abolished and prices and quantities would be determined between sugar producers and processors. WTO commitments regarding internal support and market access would be respected. Sugar would be sold by the two domestic sugar processors under market conditions, determined by world prices and border duties. "Agricultural Policy 2002" also envisaged a reunification of the markets for bread and fodder cereals. The continuation of cereal, potato and sugar production, although inefficient by world standards, was intended to maintain a certain level of self-sufficiency. While the same considerations applied to oilseeds, these would be supported exclusively by non-product-related direct payments.

76. The Swiss Cheese Union administered export subsidies for certain cheeses only (Emmental, Gruyère, Sbrinz). As these cheeses could also be exported freely without subsidies and other cheese exports benefitting from subsidies were handled by private companies, the related activities could not

be considered a State-trading activity as defined in Article XVII of GATT 1994. The Swiss Cheese Union was scheduled for abolition.

77. Sanitary and phytosanitary regulations did not discriminate between imported and domestic products. Switzerland participated in the work of most international bodies, including Codex Alimentarius. Agreements with neighbouring countries covered areas such as epizootics and plant protection; an agreement with the EU was designed to facilitate border procedures.

78. Minimum stocks were maintained under GATT Article XXI for national security considerations. The stocks were financed by importers' associations acting on behalf of the Government. Switzerland had tariffed the levies on imported goods that were also produced domestically (sugar, oils and fats, and fodder). In contrast, levies to finance compulsory stocks of rice and tropical beverages had not been tariffed or bound, as there was no domestic production.

79. The reduced VAT rate on agricultural inputs did not distort competition because the same rate applied to all farm products. Taxes on alcoholic beverages, which potentially discriminated between imported and domestic products, would be harmonized. BUTYRA, the butter monopoly for in-quota imports, was earmarked for abolition as part of the "Agricultural Policy 2002" project. Swiss farmers were fully aware of the food tourism problem; the Government hoped that the agricultural reforms would halve the price differential between Swiss and neighbouring markets.

80. The second discussant, himself a citizen of a net food importing country, considered it important to obtain the best and cheapest supplies for the population. He appreciated the information provided on the "Agricultural Policy 2002" project; the envisaged reforms might take time to materialize.

81. The representative of New Zealand reiterated his concerns about the legal status of the "prise en charge" mechanism under the Uruguay Round Agreements. The mechanism, which had all the characteristics of a Trade-Related Investment Measure, had been tariffed in the Round and, therefore, should not remain in place. In practice, it severely circumscribed the ability of exporters to choose their customers. He also questioned whether the fact that the Swiss Cheese Union's activities were limited to three varieties was sufficient for not considering it as a State-trading entity, given the Union's rights and privileges and the existence of an obligatory delivery scheme. The Government's intention to disband the Union was therefore most welcome.

82. The representative of Canada noted that Switzerland's fiscal outlays for agriculture would significantly expand over the next five or seven years, with a potentially adverse impact on structural adjustment in the agricultural sector. The representative of the United States asked about any recent agreements that provided preferential access for agricultural products on a reciprocal basis.

83. The representative of Switzerland noted that there would be ample opportunities in other fora to discuss the merits and demerits of the "prise en charge" system. There would be an increase in financial support for agriculture because costs would be shifted from consumers to taxpayers in the context of an overall reduction in support for agriculture.

(iii) Competition policy

84. The representative of Switzerland remarked that the general perception that the Swiss economy was highly cartelized, was inspired mainly by the high level of domestic prices. These could be attributed mainly to high living standards and a preference for high-quality products. However, he conceded the existence of collusive practices among companies engaged in traditional cartels and, in some cases,

exclusive distribution agreements. Such agreements might impede access of new entrants. The competition authorities were fully aware of the problem, but the existing legal provisions against vertical agreements were relatively weak. The situation would change under the new Competition Law.

85. Table AIII.2 of the Secretariat report listed all formal enquiries by the Cartel Commission which had taken place during the period under consideration (1991 to 1995). In addition, the Cartel Commission had made 74 preliminary investigations. Regarding sanctions, he emphasized that, for Constitutional reasons, Swiss cartel law was based on the principle of abuse; it did not impose a blanket prohibition on cartels. If firms had refused to accept a recommendation by the Cartel Commission, the Department of the Public Economy could make a decision. Disregard of this decision might draw sanctions, but there had been no such case to date.

86. The new Competition Law, part of the Government's revitalization programme, was due to enter into force on 1 July 1996. Switzerland would then have modern legislation similar to that of the European Union. While the new law was also based on the principle of abuse, it was defined in a way that allowed the competition authorities to achieve the same results as with prohibitions. Horizontal price, quantity and territorial agreements were presumed to be illicit. Economic operators in Switzerland were fully aware of the new rules, after two years of preparatory work and extensive public discussions. The law separated the competence to investigate from the competence to decide. Investigations would be conducted by the Secretariat of the Competition Commission, composed of about 40 professionals, as against 10 at present. The Competition Commission, which had been elected at the end of April, would take decisions based on the work of the Secretariat. The Commission had been empowered to impose fines or other monetary sanctions. However, the principle of abuse allowed the imposition of sanctions only if the firms concerned did not comply with a decision. Fines could reach up to Sw F 100,000 for a natural person acting for a company, or three times the profits achieved through the abusive practice, or 10 per cent of the turnover in Switzerland of the firms involved.

87. For the first time in Swiss competition policy, the law contained a preventive merger-control mechanism; the material criteria for interventions were based on "effective competition". This had to be understood as an open, dynamic approach which was not linked to a particular competition theory. A general exception clause, set out in Article 3:1 of the new law, applied only where it was the clear intention of the legislator to exclude competition in a certain sector. This implied that the public interests involved could not be achieved through market forces and, therefore, a specific regulatory framework was necessary.

88. Regarding intellectual property rights, he noted that no bilateral negotiations were currently taking place regarding the regional/international exhaustion of such rights. In any event, Switzerland would take into account its international obligations, including under GATT Article XXIV and the TRIPS Agreement.

89. In response to additional questions, the representative of Switzerland confirmed that the Competition Commission had the possibility of initiating investigations. A public interest clause in Article 8 of the Competition Law allowed for an exceptional authorization based on preponderant public interests.

(iv) Regional and preferential arrangements

90. Switzerland's trade policy had both a multilateral and a preferential dimension, with a focus on Europe. In 1991, the Federal Council had pursued two main policy objectives: concluding the GATT negotiations and joining the European Economic Area. In May 1992, the Federal Council had

declared EU membership as a strategic European policy objective. In order to minimize the economic costs resulting from the rejection of the EEA Agreement, the Federal Council was currently negotiating with the EU in a number of areas:

- participation in the EU's Fourth Framework Programme for Research, which would allow for greater synergies between Swiss and EU research efforts;
- improved co-operation in the area of technical regulations to facilitate mutual market access;
- enhanced market access for a number of farm products through the elimination of tariff and non-tariff barriers to trade;
- progressive liberalization in procurement areas not yet covered by the WTO Agreement on Government Procurement, including railways and telecommunications, and extension of the provisions of the WTO Agreement to purchases by Swiss municipalities;
- progressive liberalization of labour markets for EU and Swiss residents, as well as mutual recognition of diplomas and co-ordination of social security provisions;
- liberalization of air transport on a reciprocal basis, ensuring EU carriers access conditions to the Swiss market comparable to those accorded to companies from certain third countries; and
- progressive liberalization of road transport on a reciprocal basis and development of a common approach to transport policy, notably for the Alpine region, that would reflect actual costs.

91. Future agreements with the EU could take various forms, including a second round of bilateral negotiations, accession to the EEA or membership of the EU. Ensuring conformity with GATT Article XXIV, both in form and substance, was a priority objective in the present bilateral negotiations. Switzerland had recently concluded a series of free-trade or co-operation agreements with trading partners; the 1972 free-trade agreement with the EC had not been amended. Switzerland's active participation in the WTO should demonstrate its willingness to strengthen the multilateral trading system. Regional integration schemes would not erode other WTO members' terms of access to the Swiss market.

(v) Other sectoral issues, including services

92. The representative of Switzerland stressed that his country's regulatory régime was open and liberal. This was reflected in one of the most comprehensive schedules of specific commitments under the GATS in terms of sectors as well as modes of delivery, including in particular the establishment of a commercial presence in Switzerland. The horizontal limitations contained in the GATS schedule were of minor importance:

- The acquisition of real estate was permitted for personal housing needs, professional use and business activities. To verify the purpose of an acquisition, an authorization requirement was in place which did not constitute a substantive obstacle to establishing a commercial presence. The only excluded activity was real estate business as such.
- Under Swiss company law, specific requirements applied to the residence and/or nationality of board members or of company representatives. These requirements applied horizontally to all sectors of the economy and had not proved an impediment to foreign direct investment

in Switzerland. In particular, they did not inhibit foreign investors from exercising management and control functions over their business operations. The regulations did not apply to cross-border delivery.

- Concerning movements of natural persons, in particular intra-corporate transfers, access for executives, managers and specialists was granted according to Switzerland's GATS commitments. In addition, Switzerland was prepared to assume commitments for specialized contractual service providers without a commercial presence. In the event of difficulties at cantonal level, applicants could refer to the relevant federal authority.

93. Exclusivity arrangements in services sectors were the exception rather than the rule. In addition, reforms were under way to open hitherto protected areas to private competition on a non-discriminatory basis. This was true for telecommunications and for a variety of postal and railway transportation services.

94. Monopolies for fire and natural damage insurance existed only in 19 cantons. The share of exclusive providers in total premium income in these areas amounted to less than 4 per cent. Although the abolition of these monopolies was a long-term objective of the Federal Government, it was politically sensitive as cantonal constitutions would have to be changed.

95. Cross-border provision of re-insurance and certain insurance services in the transport area was already possible. In addition, federal legislation allowed for cross-border supply of life and non-life insurance for large risks, provided that a bilateral agreement on the mutual recognition of supervision had been concluded with the home country of the provider. So far no such agreement had been concluded.

96. Air transport services, in particular traffic rights, were still governed mainly by bilateral agreements. This was true for most, if not all WTO Members. During the Uruguay Round, major trading partners had opposed the inclusion of traffic rights and directly related services, including ground handling, into the multilateral framework of the GATS. Given the size of its territory, Switzerland had no significant internal air transport market. Liberalization of air transport services would thus take place in an international framework, bilateral or multilateral, depending on the approach taken by trading partners. Switzerland was presently negotiating with the EU and - in the framework of a bilateral exchange of traffic rights and related services - other partners.

97. Telecommunications was probably the most significant sector currently undergoing deregulation. A draft law would soon be transmitted to Parliament and was expected to enter into force on 1 January 1998. Switzerland's GATS offer of concessions would be changed accordingly as soon as the law was approved. The new régime was based on market principles. All suppliers of universal telecommunication services and all network operators and users of radiocommunication frequencies had to be licensed. However, with the exception of technical limitations, the number of licenses was not limited.

98. Universal services included voice transmission, data transmission (e.g. fax, internet), emergency calls and a sufficient number of public pay phones and certain associated services. This list could be expanded. Telecom PTT would provide the universal service for the first five years, after which an auction would be held. If universal services could not be supplied at a profit, subsidies would be provided. They would be sourced from fees levied on the supply of licensed telecommunications services.

99. The draft telecommunications law also contained rules on co-operation between suppliers, notably with respect to interconnection. Special provisions had been made regarding frequency management, terminal security and secrecy. An independent Communication's Commission would be created to prevent interest conflicts between the Confederation's regulatory competence and its rôle as a co-owner of Telecom PTT. The Competition Commission would be responsible for general issues relating to competition. Global One, British Telecom and other foreign private service providers were already established in Switzerland or were considering establishment in view of both the existing and the new market environment.

100. Various telecommunications services had already been opened to private competition, e.g. data communication services and voice telephone services for closed user groups on leased lines. In these areas, private operators were free to operate in the Swiss market without restrictions on foreign capital participation.

101. The representative of Chile asked whether the draft telecommunications law contained any restrictions on foreign equity participation and sought clarification on the preferences in place in the audiovisual sector. The representative of Argentina enquired about authorization requirements for foreign construction companies employing their own staff in Switzerland.

102. The representative of Switzerland confirmed that there would be no restriction on foreign equity participation in telecommunication companies and undertook to provide detailed written replies to the other two questions.

VII. CONCLUDING REMARKS BY THE CHAIRPERSON

103. The Trade Policy Review Body has now completed the second review of Switzerland's trade policies and practices. These remarks, made on my own responsibility, summarize the main points of the discussion. They are not intended to substitute for the collective evaluation and appreciation of Switzerland's trade policies and practices. Details of the discussion will be reflected in the minutes of the meeting.

104. The discussion developed under five main themes: (i) the economic environment and structural reforms underway; (ii) agriculture; (iii) competition policy; (iv) regional and preferential arrangements; and (v) other sectoral issues, including services.

(i) The economic environment and structural reforms underway

105. Members noted that Switzerland's economic environment since 1991 was one of slow growth, rising unemployment and losses in competitiveness. Despite these unfavourable trends, Switzerland had played a leading rôle in the Uruguay Round and had embarked on a process of internal and external trade liberalization and deregulation. Implementation of the WTO Agreements implied important legislative reforms, mainly in agriculture and government procurement. The "revitalization programme", undertaken since 1993, was aimed at opening internal product and factor markets, strengthening competition and harmonizing technical regulations with international requirements, in particular those maintained by the European Union. Several members noted that not all parts of the programme had yet entered into force and that others would require time to show tangible results.

106. While currency appreciation tended to undermine export competitiveness, in particular in sectors such as tourism, declining import prices had not translated into significant domestic price cuts, possibly reflecting internal rigidities in the Swiss economy. In this connection, members called attention to restrictions in government procurement, effects of cartel practices, and continuing access problems resulting from rigid standards and regulations in many areas of goods and services.

107. Switzerland's liberal trade régime for manufactures contrasted sharply with the high level of protection extended to agriculture and food processing. There were no quantitative restrictions on industrial goods; nor had Switzerland taken anti-dumping, countervailing, or safeguard actions. Although tariffs were low on average, several participants expressed concern about the persistence of tariff escalation, particularly on products of interest to developing countries, and the bias against low-priced imports inherent in Switzerland's continued reliance on specific duties. Certain members recommended the widening of Swiss GSP coverage to include more agricultural, textile and clothing items.

108. The representative of Switzerland agreed that the economic situation of the 1990s was very different from the expansion of the 1980s. Both open and protected sectors were subject to strong adjustment pressures. The reforms of the revitalization programme covered not only agriculture, but also health, transport and public administration. Swiss businesses, large and small, were highly involved in the international economy. The strength of the Swiss franc was partly a reflection of the weakness of other currencies, but also of Switzerland's earlier emergence from recession than some other European countries. Private consumption had been slowed by the recession, stagnation of salaries and the introduction of VAT. By contrast, the strength of domestic investment showed the attraction of Switzerland as a production centre.

109. The representative of Switzerland underlined that imports had grown more rapidly than exports in real terms in 1994 and 1995, partly as a result of currency appreciation. Import prices of many goods had fallen; however, high rents and salaries had their effect on the final price levels. The effects of cartels and other restrictions should not be overstated. The structural reforms underway should lead to greater competition and greater flexibility of prices.

110. The representative noted that 80 per cent of Swiss technical regulations were now compatible with those of the EU. Switzerland's system of specific duties was accepted and bound in the Marrakesh Protocol; the ad valorem incidence had also been bound, guaranteeing transparency. Low rates applied to industrial goods ensured that tariffs generally played no crucial rôle in protection and that escalation was minimal; further reductions would be made under Uruguay Round commitments. Proposals to improve the GSP scheme would soon be presented to Parliament.

(ii) Agriculture

111. Members acknowledged Switzerland's commitments under the WTO Agreement on Agriculture, and welcomed plans for reform for the period to 2002. The latter were all the more necessary as Switzerland had the highest level of farm support in the OECD area. Participants welcomed the move away from price support towards direct payments. Tariffication, while increasing transparency, was unlikely to improve access markedly in the short run, given the high average duties on agriculture and food products. Members also noted that certain import charges, including those on rice, coffee, cocoa and poultry, had not been included in the tariffication exercise.

112. Members questioned the mechanism used to allocate Swiss tariff quotas, and particularly the compatibility with the TRIMs Agreement of the "prise en charge" system, under which tariff quota access is contingent on the purchase of domestic products. Noting that Switzerland was the world's fourth largest exporter of cheese, assisted by significant export subsidies, members asked why the Swiss Cheese Union had not been notified to the WTO as a State-trading enterprise. They also asked why Switzerland considered it necessary to continue promoting the production of cereals, oilseeds, potatoes and sugar.

113. The representative of Switzerland recalled the small share of agriculture in the Swiss economy and its low rate of self-sufficiency. Reforms proposed in "Agricultural Policy 2002" foresaw reduction of State intervention in many sectors, cuts in consumer prices, and decoupling of farm prices and incomes with an increase in direct payments. Switzerland's Uruguay Round commitments on agriculture were far from modest. Many tariff quotas had been more than filled; domestic support had already fallen by some 20 per cent and export subsidies had not been fully utilized. The "prise en charge" system was legally acceptable under the WTO, did not involve any extra restrictions on imports and was not administered by producer interests; Switzerland intended to maintain it.

114. In response to the specific questions raised, the Swiss representative said that the Swiss Cheese Union was responsible for the administration of export subsidies, and only of certain cheeses and was not, therefore, a State-trading enterprise in GATT terms; its abolition was envisaged for 1997. Compulsory stock-holding was financed through private import organizations. Since such charges were levied for national security reasons on goods not produced domestically, they were not subject to ceilings under GATT 1994. The introduction of a single-rate tax on alcoholic beverages was under study; this would remove potential discrimination between domestic production and imports. The abolition of State monopolies on bread-flour and butter was envisaged in "Agricultural Policy 2002" and that for strong alcohols was under study. Details were also given on sanitary and phyto-sanitary restrictions and on VAT rates on agricultural imports. Clarifications were supplied on the administration

of tariff quotas and import permits for poultry, meat, fruit and vegetables, cut flowers, dairy products, animal feeds and white wine, as well as on tariffs on butter, and agricultural support for sugar, cereals and potatoes.

(iii) Competition policy

115. Members remarked on the persistence of cartel arrangements in the Swiss economy, frequently in the form of vertically integrated concerns, often with exclusive links to suppliers abroad. Such practices reduced imports from the level that could be expected under competitive conditions, and had detrimental effects on prices.

116. The new Competition Law was welcomed, although it was noted that the legislation still did not prohibit cartels and other restrictive practices. Questions were asked regarding the instruments available to the Swiss authorities for enforcing the new legislation.

117. The representative of Switzerland noted that not all price differences could be ascribed to cartel behaviour; in a high income country like Switzerland, quality played a major rôle in sales. However, the Cartel Commission was well aware of the problems of collusive behaviour and exclusive distribution agreements. The new Competition Law, expected to come into force on 1 July 1996, would strengthen the legal framework. The principle of abuse, contained in the new law, could achieve the same results as a prohibition of cartels (which would imply amendment of the Swiss Constitution). The staff of the new Competition Commission had been expanded and its legal powers extended to take decisions, contrasting with the existing situation where the Cartel Commission could only make recommendations. Substantial fines could be levied in case of non-compliance. Merger control would be based on effective competition and abusive behaviour criteria, similar to the Treaty of Rome; exceptions were envisaged only in the case of highest-priority public interests.

(iv) Regional and preferential arrangements

118. Several participants noted the focus of Swiss trade policies on bilateral negotiations with the European Union, following the rejection of the EEA Agreement in December 1992. Observing that Switzerland had concluded a large number of other preferential trading agreements, mostly with central European and Mediterranean countries, members stressed that trade policies should not be too heavily concentrated on Europe at the expense of other regions.

119. The representative of Switzerland recalled that in 1991 the Federal Council had defined two objectives of trade policy as success in the GATT negotiations and in negotiating the European Economic Area; membership of the EU had been established as a strategic objective in 1992. Following the rejection, by referendum, of the EEA Agreement, bilateral negotiations with the EU were begun in December 1994 on research, technical requirements, agriculture, public procurement, movement of persons, air and road traffic. For the EU, all these areas were interlinked. In conducting these negotiations, the Swiss authorities saw compatibility with WTO provisions as a priority and expected that conformity with Article XXIV could be assured.

120. Regarding the network of free-trade and co-operation agreements with other partners, the representative emphasized that although Switzerland's position in central Europe implied a strong regional interest, there was no deliberate concentration on relations within Europe. Trade would grow on the basis of market development and Switzerland saw WTO commitments as central to this aim.

(v) Other sectoral issues, including services

121. While recognizing that many Swiss service industries were highly competitive, members observed a variety of interlinked obstacles to market entry, including work permit regulations, nationality requirements for board members, and restrictions on real estate acquisition and share transfers. Participants urged the authorities to allow cross-border supply in insurance, where foreign participation was still very modest. Although liberalization of ground handling services was appreciated, participants observed that Switzerland's non-participation in the general deregulation of European air transport entailed high costs. Several members sought more information on the announced liberalization of basic telecommunications services.

122. Clarification was sought on how revenue fees for widespread copying would be allocated to foreign copyright holders; on local-content requirements in the audiovisual sector; and on changes to the excise tax régime for motor vehicles.

123. In reply, the Swiss representative recalled Switzerland's comprehensive schedule of specific commitments under the GATS. Horizontal exceptions were of limited importance. Thus, acquisition of real estate was permitted, except for real estate business as such. Domicile and nationality requirements for board members had not been a practical obstacle to foreign investment or control. Regulations on movement of natural persons had been loosened in 1993 to facilitate access for business people and specialists. Exclusivity arrangements were the exception; reforms were under way.

124. The abolition of cantonal insurance monopolies, a constitutional issue, was delicate, although it was a long-term aim. Certain insurance services could already be provided on a cross-border basis; some other areas were possible on the basis of mutual recognition agreements covering insurance supervision. Liberalization of air transport services would take place in appropriate bilateral or multilateral frameworks.

125. Concerning telecommunications, a new law was to be sent to Parliament in June 1996, with a view to entry in force on 1 January 1998. The representative underlined that market mechanisms were at the base of the new legislation.

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126. Overall, one of the main themes that emerged most strongly from the discussion was the difficulty in achieving access to the Swiss market. This was felt to apply in different ways across different sectors. Domestic agriculture is sheltered behind a high level of protection; in the non-agricultural sector, the level of price adjustment that would normally be associated with significant currency appreciation has not occurred. In the services sector, a variety of restrictions were seen as combining to discourage foreign competition.

127. At the same time, members appreciated that important steps are being taken - either autonomously or under WTO commitments - to ensure more genuine openness in the Swiss economy. Time will be needed to evaluate the impact of the various reforms of economic legislation that are under way. However, given the degree of existing market distortions perceived by many Members, some doubts were expressed as to the adequacy of the scale and pace of reforms contemplated.

128. Members acknowledged the underlying strengths of the Swiss economy and the dynamic rôle which Switzerland has played in the WTO. Many felt that an economy with such strengths could afford to be more open, and that indeed the benefits of increased openness would be felt domestically as well as by Switzerland's trading partners. Members looked forward to being able to assess tangible progress in this direction as soon as the current legislative reform bears fruit.