

TRADE POLICY REVIEW

SWITZERLAND AND LIECHTENSTEIN

Report by the Government of Switzerland

Pursuant to the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Government of Switzerland is attached. The policy statement by the Government of Liechtenstein is contained in document WT/TPR/G/77/LIE.

Note: This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Switzerland and Liechtenstein.

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I. INTRODUCTION

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 4 and 6 December 2000, given the fact that they form an economic and monetary union and Liechtenstein is an integral part of the Swiss customs territory.

2. International trade plays a key role in the Swiss economy, accounting for a very substantial proportion of GDP¹ and experiencing strong growth in recent years. The Swiss Government attaches great importance to the openness of world markets for goods and services, including the area of public procurement, and to solid protection of intellectual property.

3. The economic policy pursued by Switzerland aims at strengthening its international competitiveness which is currently well served by a macroeconomic policy geared to budgetary equilibrium, price stability and balanced growth, as well as by domestic framework conditions favourable to investment.

4. The Swiss Government has attempted to improve the economic environment in recent years, in particular by liberalizing telecommunications and government procurement, and by adapting numerous technical standards to those of the EU. Reforms to achieve greater internal competitiveness have also been undertaken, particularly in the fields of agriculture, competition law, the railways and postal services.

5. In the field of European integration, Switzerland concluded seven far-reaching economic agreements with the EU in 1999. Within the framework of EFTA, Switzerland has also extended its network of free trade agreements in the Mediterranean and South-Eastern Europe, and is currently negotiating with several countries outside Europe.

6. Switzerland firmly supports the integration of developing countries, countries in transition and the least-developed countries into the global economy through trade and investment. The Swiss authorities favour the opening up of markets to products from the LDCs and increased technical assistance to facilitate their integration into the multilateral system and the improvement of their capacity to reap its benefits.

7. The Swiss Government recognizes the WTO's key role in the gradual liberalization of trade, the establishment of rules, rights and obligations governing international trade and dispute settlement. Switzerland supports the inclusion in the WTO framework of new areas closely related to trade, such as competition and investment.

8. This report starts with a description of the economic environment in which Swiss trade has evolved since the country's last trade policy review in 1996, and goes on to deal with recent economic policy developments and their aims. It concludes by pointing to the consequences of internationalization and growing interdependence, highlighting the need for the WTO to pursue existing objectives and expand its scope in the context of a new round of multilateral negotiations.

¹ Exports and imports of goods and services in 1999 accounted for 41.4 per cent and 36.9 per cent of GDP respectively.

II. ECONOMIC ENVIRONMENT

9. In 1997 the Swiss economy entered into a period of recovery after a decade of relatively disappointing results. Following a brief slowdown in 1998, caused in part by the impact of the Asian crisis, the recovery gathered momentum during the second half of 1999 with an annual growth rate of over 3 per cent. This trend was confirmed in the course of 2000. Indeed, during the first two quarters of 2000, GNP grew by nearly 4 per cent compared with the same period of the preceding year. The expansion was driven by export growth and sustained by strong domestic demand in the private sector, consumption and investment. Employment quickly responded to the accelerated growth of production; the unemployment rate fell from its peak of 5.4 per cent in the spring of 1997 to less than 2 per cent in the second quarter of 2000. The upward trend in inflation in 1999 and 2000 was due mainly to the increase in the price of oil products and was accentuated by the strength of the dollar; excluding oil products, the inflation rate in the consumer price index was kept below 1 per cent.

10. Swiss merchandise exports² increased in value from Sw F 54.7 billion during the first half of 1998 to 61.8 billion (+ 13 per cent) in the course of the first half of 2000. During the same period, the value of imports rose from Sw F 53.4 billion to 62.4 billion (+ 17 per cent), in response to strong domestic and export demand as well as continued import penetration. The fact that import penetration is gaining ground, despite normalization of the exchange rate situation in the wake of the 1993-1995 overshoot, appears to be indicative of the continuation of major structural adjustments in Swiss industry (e.g. concentration on high value-added production, further increase in the use of imported intermediate products). The year 2000 has seen strong export growth to North America and, in particular, to the emerging countries of Asia, Latin America and Eastern Europe, where domestic demand recovered sharply following the downturn linked to the Asian crisis and the turbulence on international financial markets. The biggest increase in imports has come from the emerging countries of Latin America and Asia, despite the strength of the United States dollar, and from the OPEC countries as a result of the substantial oil price rise. Trade with the EU has also shown a significant upturn, while remaining below the average overall level of export growth.

11. The rapid advance of globalization is also reflected in a further substantial rise in foreign direct investment (FDI) flows. FDI by Swiss firms increased from roughly Sw F 18 billion to roughly Sw F 42.5 billion in 1999. At the same time, FDI flows into Switzerland increased from approximately Sw F 4 billion to Sw F 14.1 billion. Most of the FDI flows go to or come from the EU and the United States, and they continue to be heavily concentrated in the finance, banking and insurance industries.

12. Given the poor economic performance figures for much of the 1990s and the costs to the economy and society, Swiss economic policy has for some years attached high priority to a stable macroeconomic policy environment. The new policy framework of the National Bank and current monetary policy should be largely adequate to ensure price stability and conduce to balanced growth, while at the same time avoiding excessive appreciation against the euro. Following a serious decade-long deterioration in public finances, which saw the ratio of debt to GNP increase from 30 to 55 per cent, a process of fiscal consolidation appears now to be well under way. A constitutional amendment should contribute to a broadly balanced budget in 2001; its aim is to balance the budget during the business cycle, so as to bring about a reduction over time in the debt ratio and strengthen the credibility of fiscal policy.

² Commercial transactions excluding precious metals, precious stones and antiques.

13. Out of concern not to fall behind in relation to economic policy developments in the EU, major structural reform projects have been undertaken in recent years or are being planned, with a view to increasing competition in product markets (example: see paragraph 15 et seq.).

14. Strong export market growth, sound economic fundamentals and improved consumer and business confidence constitute the framework for the continuation of sustained economic growth. However, given a slight slowdown in the growth of world markets and the somewhat restrictive effect of tighter monetary conditions on domestic demand as a whole, economic growth in Switzerland will probably decline from roughly 3 per cent in 2000 to roughly 2 per cent in 2001, a rate which should be more in line with the current growth potential of the economy.

III. RECENT ECONOMIC POLICY DEVELOPMENTS AND OBJECTIVES

(1) Domestic policy areas

15. Major reforms have strengthened Switzerland's competitiveness over the last four years. Particular mention should be made of the rules introduced by the new laws concerning competition, the domestic market, technical barriers to trade and government procurement, as well as the efforts at liberalization in several areas dependent on infrastructure.

16. Switzerland has endeavoured in particular to strengthen its position as an open economy, a competitive hub for industry and services, an economic centre with considerable value-added potential and an innovative centre for training and research. Some of the key aspects of Swiss domestic policy relating to competitiveness, future priorities and agriculture are set out below in more detail.

17. In the field of infrastructure, the *liberalization of the telecommunication sector* was accompanied by a very substantial reduction of prices with the entry of competitors into the market. The postal service (1 January 1998: partial opening of the market) and the federal railways (1 January 1999: initial opening of the market) have also undergone far-reaching reforms which should be continued with the additional elimination of obstacles to market access. Decisive steps have also been taken to prepare for the deregulation of the electricity and gas markets, in order to enable outside enterprises to gain access to the network and to separate the production, transport and distribution services.

18. In the *field of competition*, Switzerland has essentially focused, since the entry into force of the new law in 1996, on action to combat horizontal price cartels or collusion in respect of quantities and market allocation. Moreover, a number of unlawful practices based on market dominance have been outlawed, particularly in sectors undergoing liberalization, such as telecommunications or energy. On the basis of the experience acquired, the Swiss Government is preparing a statutory amendment to strengthen both Government authority in the area of competition and the preventive effect of legislation.

19. In the realm of *intellectual property*, Switzerland affords protection over and above the minimum standards provided for in the TRIPS Agreement. Moreover, it is currently bringing the law relating to patents, copyright and industrial designs into line with the new technologies. Switzerland attaches paramount importance to this activity aimed at resolutely promoting efforts at research, development and innovation in the corporate sector. Only solid protection in a strict international framework can justify enormous research costs in a number of sectors concerned, *inter alia*, with the life sciences. The protection of appellations of origin and geographical indications is also essential for both agricultural and manufactured products. Consequently, recognition and international respect for geographical indications is a priority for Switzerland.

20. Swiss policy on *technical barriers to trade* provides for the adaptation of national technical requirements so as not to create technical barriers to trade, and to make them compatible with those of our main trading partners. Moreover, subject to certain conditions and in an autonomous manner, Switzerland recognizes test reports or conformity certificates issued by foreign bodies. These efforts go hand in hand with the negotiation of mutual recognition agreements in this field.

21. Switzerland is currently producing legislation in the *area of genetic technology and products containing genetically modified organisms*. On the basis of two referendums (1992/1998), Switzerland adopted a regulatory framework for genetically modified organisms and has developed a strategy based on information, safety, use of precautionary measures, consideration of ethical arguments, forward-looking regulation open to future developments and respect for international rules. The Swiss Government's objective – while guaranteeing environmental safety – is to strengthen Swiss industry's position in relation to the new technologies through a set of regulations geared to future needs, including popular acceptance of these new technologies. This means that consumers must constantly be kept informed about production methods and the potentialities of these technological advances.

22. The Swiss Government pursues a very active policy on *environmental protection* and attaches high priority to sustainable development with the aim of protecting and improving the environment for future generations. In this connection, Switzerland has participated in the negotiation and contributed to the implementation of most of the multilateral agreements on the environment.³ Switzerland supports those provisions of environmental agreements that have an impact on trade, provided that they are necessary, are not arbitrary in nature, and do not constitute unjustifiable discrimination or a disproportionate or disguised restriction on international trade.

23. With regard to *labour standards*, Switzerland recognizes the key role of the International Labour Organization (ILO) confirmed at the Social Development Summit in Copenhagen (1995) and the WTO Ministerial Conference in Singapore (1996). At the national level, Switzerland has ratified three core ILO conventions in recent years, dealing with collective bargaining rights, the minimum age for access to employment and the worst forms of child labour. Switzerland actively supports the work of the ILO Working Party on the Social Dimension of Globalization as well as the conclusions of the Special Session of the United Nations General Assembly on social development and globalization, held in Geneva in June 2000, which called on all States to respect fundamental rights at work.

24. In the area of *agriculture*, Switzerland is going through a period of gradual reform driven simultaneously by the WTO Agreement, its own efforts at *rapprochement* with the EU and budgetary constraints. An agricultural policy geared to purely national objectives and – since the Second World War – to food security with price and marketing guarantees and protection from international competition, is gradually being abandoned. Following the introduction of all the elements of the 2002 agricultural policy, the State will play hardly any further role in the market.

25. Agricultural reform and the reorganization of agricultural policy are based on Article 104 of the Federal Constitution adopted by the people and the cantons, by a large majority, on 9 June 1996. The article lists agricultural tasks and establishes guidelines for agricultural policy; agricultural tasks are multifunctional and go beyond the mere production of foodstuffs. The Confederation ensures that the farm sector is able to fulfil these tasks by gearing production to both sustainable development

³ For example, Montreal Protocol, Convention on International Trade in Endangered Species, Basle Convention and Convention on Climate Change.

requirements and those of the market. It provides direct payments for public-interest and environmental services rendered by farmers, which have no commercial value.

(2) Foreign policy areas

26. In the area of *European integration*, Switzerland has in recent years concluded seven specific agreements with the EU in order to strengthen its regional integration links with its main trading partner.⁴ These agreements concern mutual recognition of tests and certificates, government procurement, agriculture, free movement of persons, road and air transport, and research. These new agreements enable Switzerland, on the one hand, to further open up its economy and improve its market access to the EU as a follow-up to the 1972 free-trade agreement and, on the other hand, to strengthen the "eurocompatibility" of technical rules under national legislation.

27. Switzerland regards the efforts at integration with the EU as an active preparation for the achievement of the Federal Council's strategic objective of EU membership. With an eye to that goal, the Government will continue to undertake reforms in the next few years, in order to enhance Switzerland's "eurocompatibility". Switzerland will be able to act independently in some areas (VAT, for example), while in others (e.g. internal security) negotiations with the EU will be necessary.

28. The Federal Council will determine the timetable for reactivating the request to open EU accession negotiations, on the basis of experience with the new bilateral agreements concluded with the EU in 1999 and the state of progress of the internal reforms needed to prepare the accession process. The Federal Council will also attach great importance to broad political support in the Parliament. In the meantime, Switzerland and the EU could continue to deepen their relationship in respect of matters such as processed agricultural products, training and the environment, or new issues such as internal security, including asylum and migration policy, customs fraud and taxation of savings.

29. In the *area of free trade*, Switzerland and its EFTA partners are pursuing a dynamic policy and have 15 free-trade agreements to their credit to date. Switzerland, its EFTA partners and the EU have improved their free-trade relations with Central and Eastern Europe by means of a number of agreements establishing a free-trade system (1 January 1997) based on the Pan-European cumulation of rules of origin; Turkey joined this system in 2000. In South-Eastern Europe, a free-trade agreement was concluded with the former Yugoslav Republic of Macedonia in 2000, while negotiations with Croatia are due to open in the very near future.

30. An important objective for Switzerland is to maintain for its exporters conditions of access to foreign markets that are equivalent to those afforded to their established competitors, particularly in the EU. To that end, Switzerland and its EFTA partners have entered into or are negotiating free-trade agreements with several countries with which the EU has established such relations. In the Mediterranean area, Switzerland and EFTA have already implemented free-trade agreements with Turkey, Israel, Morocco and the Palestinian Authority, and should shortly conclude negotiations with Jordan. This strategy has led Switzerland and its EFTA partners to enter into negotiations with Mexico, prepare for negotiations with Chile, establish contacts with MERCOSUR and express an interest in initiating negotiations with South Africa.

31. The extension of free-trade relations by Switzerland and its EFTA partners is also being effected independently of the EU. Thus, EFTA is currently at an advanced stage of negotiation with Canada. Switzerland and its EFTA partners have also decided to pay particular attention to the Asian countries.

⁴ In 1999, the EU accounted for 61.1 per cent of Switzerland's exports and 77.8 per cent of its imports.

32. The policy pursued by Switzerland and the EFTA countries is not designed as a substitute for worldwide trade liberalization. On the contrary, free-trade agreements should be a force for complementarity and mobilization, in anticipation of a new round of negotiations in the WTO.

33. In this connection, Switzerland is already participating in the WTO's zero-for-zero initiatives (pharmaceuticals, ITA etc.) and has proposed that the new round of negotiations should aim at achieving a zero tariff rate by 2010 for a substantial proportion of tariff headings for manufactured products.

34. Swiss market access for products from *developing or transition countries* is facilitated through the application of a generous, transparent and predictable scheme of preferences. Imports from developing countries are encouraged by means of a special programme (Swiss Import Promotion Programme – SIPPO). Switzerland also supports the strengthening of certain countries' capabilities in the area of trade policy, and endeavours by various means, frequently in collaboration with the International Trade Centre (ITC), to reduce the cost burden on transactions between the economic players.

35. In recent years, Switzerland has directed most of its technical assistance to a limited number of countries. It has placed particular emphasis on strengthening their capacity to formulate and implement trade policies and has developed strategies comprising integrated sets of objectives. Switzerland has also offered to the WTO missions the services of the Agency for International Trade Information and Cooperation (AITIC).⁵ It strongly supports an increase in the WTO regular budget in order to provide stable and predictable financing for technical assistance activities.

36. Assistance to the least-developed countries is a priority for Switzerland. This group of countries is the main beneficiary of Swiss official development aid.⁶ In the field of trade, Switzerland uses its scheme of tariff preferences to grant ample market access for industrial and agricultural products from these countries. Instruments like AITIC, or the Swiss contribution to the WTO Trust Funds, give priority to the LDCs. At UNCTAD, Switzerland has set up a special facility for support to the LDCs. It also finances various programmes in cooperation with the ITC.

37. In multilateral forums, Switzerland is constantly seeking to adapt rules and disciplines in order to enable governments to respond to the challenges of globalization. This is the intention behind Switzerland's efforts in support of a new round of multilateral negotiations with a negotiating programme broad enough to satisfy all 138 WTO Members.

IV. SWISS POSITION IN A NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS

38. The Swiss Government actively supports the launching of a new round of multilateral trade negotiations aimed at strengthening the global trading system and better integrating the developing countries, the countries in transition and the LDCs. It should deal with market access in the broad sense of the term, as well as with rules and coherence (trade and ...), thereby responding to the growing concerns of the general public – not only producers and distributors, but also consumers and the other social forces – in connection, *inter alia*, with sustainable development, environmental

⁵ AITIC's task is to help the less-advantaged developing or transition countries to take a more active part in WTO activities and negotiations. It provides personalized assistance on international trade issues as well as specific information on subjects of direct concern to the less-advantaged countries. Its services are also available to countries with no representation in Geneva.

⁶ In 1999, Swiss development aid amounted to Sw F 1.46 billion.

protection, effective competition and the quality of food products. A new round would also serve as an essential catalyst for establishing new internal reforms and accelerating the reforms under way in Switzerland and in the economies of the other WTO Members.

39. A new negotiating round should cover a broad area in order to meet the new trade requirements resulting from the increase in international economic interdependence and to enable all WTO Members to obtain results in fields of particular interest. The Swiss Government supports a new round with continued liberalization in traditional fields and improved integration of the developing countries, the countries in transition and the LDCs into the global trading system and the extension of rules and disciplines to new fields. The main negotiating topics of relevance are the following:

- **Industrial products:** The aim is to continue liberalization in respect of manufactures, with the elimination of tariffs for a certain percentage of tariff headings, a substantial reduction in the duties applicable to the remaining tariff headings, and the elimination or substantial reduction of tariff peaks, tariff escalation and the disparity between WTO bound rates and the rates actually applied in the national tariffs.
- **Agriculture:** On the basis of Article 20 of the Agreement on Agriculture, Switzerland is prepared to enter into agricultural negotiations in order to continue the gradual opening of markets and achieve an additional reduction in the level of domestic support and export subsidies, while taking account of the non-commercial interests and multifunctionality associated with agricultural activity. These negotiations are concerned with both rules and the continuation of the gradual liberalization made possible by the instruments developed during the Uruguay Round.
- **Services:** In accordance with Article XIX of the General Agreement on Trade in Services, Switzerland is in favour of new negotiations aimed at achieving a progressively higher level of liberalization and at reducing or eliminating the effects of certain measures on trade in services. Switzerland is participating actively in the preparatory work which should lead to the presentation of proposals by Members on rules and market access.
- **Intellectual property:** The TRIPS Agreement is an important framework for guaranteeing respect for intellectual property rights. This instrument should be further developed by extending the protection of geographical indications to food products other than wine and spirits, as well as to specific industrial products, in order to meet the essential requirements of the producers concerned and ensure the authenticity of products for the sake of consumers.
- **Trade facilitation:** commercial transactions are made subject to complex and costly administrative procedures concerned in particular with payment arrangements, insurance, transport and customs transit. The WTO must seek to integrate the different procedures by developing a multilateral framework of directives, rules and disciplines based on the fundamental principles of the WTO, so as to achieve greater legal certainty, greater predictability and improved market access for economic operators. Furthermore, these efforts should prepare the ground for mutual recognition of national procedures.

- **Government procurement:** given the limited degree of participation, to date, in the WTO Plurilateral Agreement on Government Procurement, the ongoing revision of which is actively supported by Switzerland, it is essential to develop an instrument enabling all WTO Members to make commitments in this field. In fact, the substantial volume of public contracts in each country and the considerable savings achieved by procedures open to competition, as well as the impact on good governance, are arguments in favour of continued negotiation of an agreement on transparency based on the principle of non-discrimination.
- **Investment:** as trade and investment have in many ways become inextricably linked in the world economy, international investment should be provided with the minimum multilateral legal framework which it still lacks. This aim should be pursued, concurrently with the strengthening of the national framework conditions in respect of investment, with a view to increasing legal certainty on the basis of the fundamental principles of the WTO.
- **Competition:** many cases involving cartel restrictions or merger controls have an international dimension, with ramifications and effects in several countries. As a result, a more comprehensive approach, based on a multilateral agreement on competition, has become necessary to curb anti-competitive practices hampering market access. In this field also, the fundamental principles of the WTO should provide a starting point.
- **Environment:** this is a field where consistent policies are of vital importance. Switzerland supports recognition within the WTO of the objectives of sustainable development and environmental protection. Furthermore, it is important to avoid conflicts between the WTO and the Multilateral Environmental Agreements (MEAs) containing measures which have an impact on trade. Accordingly, the links between the WTO rules and those of the MEAs and fundamental environmental principles⁷ should be clarified.
- **Development:** participation by the developing and least-developed countries in the multilateral trading system should be enhanced; the negotiation of new agreements should take due account of their special situation. Measures should be adopted to strengthen technical assistance in order to facilitate incorporation of WTO law in national legislation and its enforcement; markets should be opened up to the products of the least-developed countries in order to increase their export potential.

40. The WTO faces major challenges. The globalization of relations between and within enterprises and the rapid growth of markets call for a corresponding improvement in international trade rules. The high level of economic interdependence makes it more and more necessary to establish international rules to deal with problems of increasingly transnational scope. In this connection, the WTO world trading system could only benefit from the strengthening of its rules and the incorporation of regimes concerned with investment and competition, as well as the development of procedures which will enable trade policy and other policies such as environmental protection to be mutually supportive.

41. Lastly, it is essential to ensure the **internal and external consistency** of WTO activities.

⁷ Fundamental principles: polluter pays, precautionary principle, etc.

42. At the **internal level**, the parallel development of the various "pillars" of the WTO: (goods, services, intellectual property, government procurement) should be ensured. In addition, equality of treatment for WTO Members constitutes a guarantee for the Organization's harmonious development.

43. At the **external level**, the dialogue between WTO Members – at the national and multilateral level – and the other international organizations (development, health, environment, social affairs, etc.) is an additional challenge requiring greater efforts.

44. In addition to this discussion, there is the dialogue with and between parliaments, and with and between NGOs. Significant progress must be made in this area, too, if current trade policy objectives are to be achieved in their entirety.
