

PRESS RELEASE

PRESS/TPRB/150
6 December 2000

FURTHER LIBERALIZATION IN AGRICULTURE COULD ENHANCE RESOURCE ALLOCATION IN SWITZERLAND AND LIECHTENSTEIN

Switzerland and Liechtenstein's measures to adjust their economies to the new international economic environment have resulted in a more efficient allocation of resources, which in turn has contributed to a better exploitation of their comparative advantages and to trade performance, says a new WTO report on the trade policies of Switzerland and Liechtenstein. The new report notes however that the reforms are still hesitant in certain highly protected sectors, mainly agriculture and that further liberalization of these sectors might enhance the competitive framework and contribute to lowering domestic prices.

The new WTO Secretariat report, along with policy statements by the Swiss and the Liechtenstein Governments, will serve as a basis for the trade policy review of Switzerland and Liechtenstein by the Trade Policy Review Body of the WTO on 4 and 6 December.

The report notes that the main trade policy instrument is the common Swiss-Liechtenstein customs tariff, consisting entirely of specific duties¹. The customs tariff, as well as most trade policy instruments, are set by Switzerland for the Swiss-Liechtenstein customs union. Overall tariff protection, measured by ad valorem equivalents, averages around 9%. The zero rate applies to 18% of all tariff lines, including crude petroleum and natural gas, certain chemicals, electricity, and products subject to duty-free treatment under the Pharmaceutical Initiative, the Information Technology Agreement, and the Plurilateral Agreement on Trade in Civil Aircraft.

However, the report states that rates higher than 400% apply to meat of poultry, meat of bovine animals, meat of swine, edible offal, certain dairy products and live plants, and specified edible vegetables, roots and tubers. Furthermore, tariff escalation is pronounced on food products. The report also notes that ceiling bindings, mostly on agricultural products and clothing (with bound duties reaching 770% on meat products), leave considerable margins for modification of applied duties, and reduce somewhat the predictability of the tariff.

¹ Customs duties assessed on the physical quantity, regardless of the value of the imported item, and expressed as a stated monetary amount per unit (number, weight, mass). As opposed to an ad valorem duty, based on the value, i.e. expressed as a percentage of the value of goods.

The report states that the major sectors of the Swiss and Liechtenstein economies are manufacturing - producing mostly high-technology goods - and services, chiefly financial services. Switzerland and Liechtenstein mainly import chemicals, certain semi-manufactured products, such as iron and steel, and certain consumer goods. The European Union remains their largest trading partner, with 78% of total merchandise imports supplied and 60% of Switzerland's exports absorbed.

The manufacturing sector accounts for around 96% of total value of merchandise exports, one third of real GDP, and 18% of total employment in Switzerland; and nearly the total value of merchandise exports and 46% of total employment in Liechtenstein. The report notes that the nature of their manufactured products limits the price sensitivity of their demand. Moreover, as the manufacturing sector in Switzerland and Liechtenstein is low energy-intensive, the current increase in world prices of petroleum products will only have limited impact on their economies.

Agriculture contributes some 2% to real GDP, less than 4% to merchandise exports, and 4% to total employment in Switzerland; and around 1% to total employment in Liechtenstein. The report states that the sector has remained highly protected despite the reforms implemented in recent years. The simple average ad valorem equivalent of most-favoured-nation (MFN) tariffs on agricultural imports is about 34%, nearly four times the overall average. Exports of dairy products, cattle, horses, fruit, potatoes, and certain processed agricultural products are subsidized. High domestic prices of agricultural products (by international comparison) have resulted from, inter alia, the limited land areas and resultant small size of farms, unfavourable topography and structural factors, and have been maintained by the high level of protection.

The report notes that while the reforms launched in 1993 and pursued through the "Agricultural Policy 2002" initiative have reduced State intervention in the sector, government support still represents nearly three fourths of gross farm receipts. The impact of the reforms on prices has been limited by the lack of competition in certain branches, the price-based schemes, and the replacement of marketing boards with institutions commissioned by the State.

The services sector accounts for around three fourths of total employment and two-thirds of real GDP in Switzerland; and half of total employment in Liechtenstein. Overall, the report notes, the development of branches such as tourism has been negatively affected by high wages and input prices of highly protected sectors (e.g. food products, energy, construction, and telecommunications services) and low productivity growth due to market rigidities. While Switzerland and Liechtenstein have substantially liberalized their services sectors in recent years, competition remains limited by monopolies or exclusive rights held by public or private companies in branches such as rail and air transport and postal services.

The report notes that Switzerland and Liechtenstein maintain MFN exemptions under Article II of the GATS for various reasons, including promotion of common cultural objectives, immigration regulation, protection of the integrity of road infrastructure and the environment, or bilateral or regional agreements.

The report states that membership of the European Union is a strategic objective of Switzerland. It has concluded a package of seven bilateral agreements with the EU, on agriculture, government procurement, technical barriers to trade, overland transport, air transport, free movement of persons and research. These agreements will enter into force in 2001, subject to ratification by the EU member States. Switzerland has substantially harmonized its standards with those of the European Communities. It has also amended its legislation on competition to align it on that of the EU. However, the report notes that controversial issues remain, such as the non-prohibition of dominant positions by the Swiss legislation and its lack of automatic sanctions against unlawful restraints on competition.

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Liechtenstein is a member of the European Economic Area (EEA) and has accordingly established a Market Control and Surveillance Mechanism to allow the sale in its market of goods produced and traded in conformity with either Swiss or EEA rules. The report notes that Switzerland and Liechtenstein are members of the European Free Trade Association (EFTA). EFTA provides for free trade in industrial products and in fish and other marine products. In general, regional and bilateral trade agreements concluded by Switzerland and Liechtenstein involve several sectors but do not cover unprocessed agricultural products.

Notes to Editors

Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals. Significant developments which may have an impact on the global trading system are also monitored. For each review, two documents are prepared: a policy statement by the government of the member under review, and a detailed report written independently by the WTO Secretariat. These two documents are then discussed by the WTO's full membership in the Trade Policy Review Body (TPRB). These documents and the proceedings of the TPRB's meetings are published shortly afterwards. Since 1995, when the WTO came into force, services and trade-related aspects of intellectual property rights have also been covered.

For this review, the WTO's Secretariat report, together with policy statements prepared by the Government of Switzerland and of Liechtenstein, will be discussed by the Trade Policy Review Body on 4 and 6 of December 2000. The Secretariat report covers the development of all aspects of Switzerland and Liechtenstein's trade policies, including domestic laws and regulations, the institutional framework, trade policies by measure and by sector.

Attached to this press release is a summary of the observations in the Secretariat report and parts of the governments policy statements. The Secretariat report and the governments' policy statements are available for the press in the newsroom of the WTO internet site (www.wto.org). These three documents and the minutes of the TPRB's discussion and the Chairman's summing up, will be published in hardback in due course and will be available from the Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reports have been completed: Argentina (1992 and 1999), Australia (1989, 1994 and 1998), Austria (1992), Bahrain (2000) Bangladesh (1992 and 2000), Benin (1997), Bolivia (1993 and 1999), Botswana (1998), Brazil (1992, 1996 and 2000), Burkina Faso (1998), Cameroon (1995), Canada (1990, 1992, 1994, 1996 and 1998), Chile (1991 and 1997), Colombia (1990 and 1996), Costa Rica (1995), Côte d'Ivoire (1995), Cyprus (1997), the Czech Republic (1996), the Dominican Republic (1996), Egypt (1992 and 1999), El Salvador (1996), the European Communities (1991, 1993, 1995, 1997 and 2000), Fiji (1997), Finland (1992), Ghana (1992), Guinea (1999), Hong Kong (1990, 1994 and 1998), Hungary (1991 and 1998), Iceland (1994 and 2000), India (1993 and 1998), Indonesia (1991, 1994 and 1998), Israel (1994 and 1999), Jamaica (1998), Japan (1990, 1992, 1995, 1998 and 2000), Kenya (1993 and 2000), Korea, Rep. of (1992, 1996 and 2000), Lesotho (1998), Macau (1994), Malaysia (1993 and 1997), Mali (1998), Mauritius (1995), Mexico (1993 and 1997), Morocco (1989 and 1996), New Zealand (1990 and 1996), Namibia (1998), Nicaragua (1999), Nigeria (1991 and 1998), Norway (1991, 1996 and 2000), Pakistan (1995), Papua New Guinea (1999), Paraguay (1997), Peru (1994 and 2000), the Philippines (1993), Poland (1993), Romania (1992 and 1999), Senegal (1994), Singapore (1992, 1996 and 2000), Slovak Republic (1995), the Solomon Islands (1998), South Africa (1993 and 1998), Sri Lanka (1995), Swaziland (1998), Sweden (1990 and 1994), Switzerland (1991 and 1996), Tanzania (2000), Thailand (1991, 1995 and 1999), Togo (1999), Trinidad and Tobago (1998), Tunisia (1994), Turkey (1994 and 1998), the United States (1989, 1992, 1994, 1996 and 1999), Uganda (1995), Uruguay (1992 and 1998), Venezuela (1996), Zambia (1996) and Zimbabwe (1994).

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TRADE POLICY REVIEW BODY**SWITZERLAND AND LIECHTENSTEIN****Report by the Secretariat - Summary Observations****The Economic Environment**

Switzerland and Liechtenstein form a customs and monetary union. This, together with their close cooperation in branches of services has led to a deep integration of their economies.

Switzerland's economic reform process, launched in the early 1990s, has continued and is showing signs of success. The growth rate of real GDP, which was negative in 1992 and 1993, exceeded 2% in 1998 and was 1.5% in 1999; a rate of 2% is forecast for 2000. Inflation (measured by changes in consumer prices) was lowered from over 4% in 1992 to below 1% in 1999. Economic growth, together with employment programmes, helped to reduce unemployment from around 5% in 1995 and 1997 to 2.7% in 1999. The demand for Swiss exports is not generally sensitive to price; along with an increase in domestic demand in 1998, this has dampened the effect of the Asian crisis on the economy. International reserves exceeded five months of imports in recent years. Fiscal policy is aimed at reducing the public deficit, while monetary policy has been geared at price stability, recently defined as corresponding to annual increases in the consumer price index, which are lower than 2%. Liechtenstein has responded to the new international economic environment by diversifying its participation in regional agreements. Limited investment opportunities in Switzerland and Liechtenstein have contributed to maintaining gross fixed capital formation constant (at around 20% of GDP in Switzerland); reinvested benefits are the major component of their inward foreign direct investment (60% of the total in Switzerland).

The major sectors of the Swiss and Liechtenstein economies are manufacturing, producing mostly high-technology goods, and services, chiefly financial services. The manufacturing sector accounts for around 96% of the total value of merchandise exports, one third of real GDP, and 18% of total employment in Switzerland; and nearly the total value of merchandise exports and 46% of total employment in Liechtenstein. Reflecting the comparative advantages of the two countries, the nature of their manufactured products limits the price sensitivity of their demand. Moreover, as the manufacturing sector in Switzerland and Liechtenstein is low energy-intensive, the current increase in world prices of petroleum products is expected to have limited impact on their economies. The services sector accounts for around three fourths of total employment and two thirds of real GDP in Switzerland; and half of total employment in Liechtenstein. The attractiveness of financial services in both countries has been favoured by, inter alia, their political stability, tradition of bank secrecy, and the world-wide confidence in the Swiss franc (also legal tender in Liechtenstein). Liechtenstein's membership in the European Economic Area (EEA) since 1995 has also played its part.

Mining activities are almost non-existent. Agriculture contributes some 2% to real GDP, less than 4% to the value of merchandise exports, and 4% to total employment in Switzerland; and around 1% to total employment in Liechtenstein. The sector has remained highly protected despite the reforms implemented in recent years. High domestic prices of agricultural products (by international comparison) have been maintained by, inter alia: the high level of protection; the limited land areas and resultant small size of farms; unfavourable topography; and structural factors. Overall, the development of branches such as tourism has been negatively affected by high wages and input prices of highly protected sectors (e.g. food products, energy, construction, and telecommunications services – at least up to 1998) and low productivity growth due to market rigidities. These various factors have contributed to the high cost of living in Switzerland and Liechtenstein.

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Switzerland has traditionally run current account surpluses, largely attributable to surpluses in investment income and in trade in services; financial services is one of the best performing branches. An upward trend in the ratio of merchandise trade to GDP since the early 1990s has reflected its further integration into the world economy, although export coverage of merchandise imports is also on an upward path. The trade account surpluses reflect increasing exploitation by both Switzerland and Liechtenstein of their comparative advantages and the resultant rise in exports of high-technology products. Main imports include chemicals, certain semi-manufactured products, such as iron and steel, and certain consumer goods. Agricultural products represent less than 10% of total merchandise imports and their share declined over the period 1994-99. The European Union has remained the largest trading partner; it supplies about 78% of total merchandise imports, and accounts for around 60% of Switzerland's exports.

Institutional Framework

Under the 1923 Customs Union Treaty, the Swiss Confederation and the Principality of Liechtenstein form a customs territory; all commercial treaties and trade agreements concluded by Switzerland also apply to Liechtenstein. Under the Treaty and various arrangements (including a monetary-union agreement), Switzerland formulates trade (in goods), monetary, and agricultural policies for the customs union. Except for few policy instruments set up by the Liechtenstein Office of National Economy for the Principality, the Swiss State Secretariat for Economic Affairs formulates policies on trade in goods for the customs union. In both Switzerland and Liechtenstein, policy initiatives may also come from other departments and institutions, including the private sector. Their investment regimes are liberal, with the exception of a few restrictions maintained on, *inter alia*, nationality grounds (on investment in specified services branches), on acquisitions of real estate (more stringent in the case of Liechtenstein), and in areas still under State monopolies.

The Customs Union Treaty and the other arrangements were amended over the years to allow participation by Liechtenstein in international agreements. Switzerland and Liechtenstein are original Members of the WTO and signatories to the Plurilateral Agreement on Government Procurement; Liechtenstein's interests in the GATT were covered by Switzerland until its own accession in 1994. Switzerland and Liechtenstein accord at least MFN treatment to all their trading partners. Under the monistic legal system adopted by Switzerland and Liechtenstein, public international laws (including the WTO Agreements) take precedence over national legislation, of which they form an integral part.

Switzerland and Liechtenstein have stressed the need for further strengthening the multilateral trading system and progressive multilateral liberalization of trade to guarantee fair, sustainable, and better market access for goods and services. Full compliance by all Members to multilateral and regional rules is important for medium-sized trading nations whose manufacturing sectors are export-oriented. Participation in regional and bilateral trade agreements is viewed as a means to avoid trade diversion, which might result from participation by their major trading partners in such arrangements, and to fill gaps where no multilateral agreement framework exists. In general, regional and bilateral trade agreements concluded by Switzerland and Liechtenstein involve several sectors; unprocessed agricultural products are not covered. Since its last TPR, Switzerland has been involved as complainant or third party in six disputes in the WTO.

Switzerland is a founding member of the European Free Trade Association (EFTA). Liechtenstein acceded in 1991; until then its interests in EFTA had been represented by Switzerland. In 1995, Liechtenstein became a member of the European Economic Area (EEA) in which Switzerland does not participate. Accordingly, Liechtenstein has established a Market Control and Surveillance Mechanism (MCSM) to allow the sale in its market of goods produced and traded in conformity with either Swiss or EEA rules.

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Membership of the EU is a strategic objective of Switzerland. It has concluded a package of seven bilateral agreements with the EU, on agriculture, government procurement, technical barriers to trade, overland transport, air transport, free movement of persons, and research. These agreements will enter into force in 2001, subject to ratification by the EU member States. Under the Generalized System of Preferences, Switzerland and Liechtenstein accord non-reciprocal tariff preferences to developing countries.

Trade Policy Instruments

Under the 1923 Customs Union Treaty, Switzerland formulates common trade policy measures for the Union. Therefore, with the exception of products (covered by the EEA Agreement) originating from the other EEA member States and destined for Liechtenstein, all imports to the customs union are subject to the trade regime set up by Switzerland. The main trade policy instrument is the common Swiss-Liechtenstein customs tariff, consisting entirely of specific duties. Multilateral trade liberalization within the WTO framework has contributed to the reduction of customs duties since the last Trade Policy Review of Switzerland. Overall tariff protection, measured by ad valorem equivalents, averages around 9% (simple average). Tariffs are highly dispersed: the imposition of specific duties has given rise to a wide range of ad valorem equivalents (differing from one tariff line to another).

The maximum rate of 678% applies to out-of-tariff-quota imports of meat and edible offal of poultry; rates higher than 400% apply to meat of bovine animals, meat of swine, edible offal, certain dairy products and live plants, and specified edible vegetables, roots and tubers. The zero rate applies to 18% of all tariff lines, including crude petroleum and natural gas, metal ore, certain non-metallic mineral products, leather products (except footwear and wearing apparel), certain chemicals, electricity, and products subject to duty-free treatment under the Pharmaceutical Initiative, the Information Technology Agreement, and the Plurilateral Agreement on Trade in Civil Aircraft. In aggregate, the tariff displays negative escalation from first-stage processed goods to semi-finished products, and positive escalation from semi-finished to finished goods. Positive tariff escalation is pronounced on food products, and moderate on textiles, leather products (except footwear and wearing apparel), wood and wood products (except furniture), rubber products, and certain chemicals. Factors such as incentive schemes contribute to enhancing tariff escalation and/or the level of effective protection. Adjustments of tariffs and of the incentives uphold, to a certain extent, the level of effective protection; additional taxes for customs purposes also plays a part. In addition, excise duties are collected on motor vehicles at 4%, on distilled spirit at a standard rate of Sw F 29 per litre of absolute alcohol, and on tobacco at 25% of the retail price or 6 centimes per unit. Environmental taxes are levied on mineral oils and volatile organic compounds. A value-added tax is collected at a standard rate of 7.5%; lower rates apply to "essential" products and services.

Switzerland and Liechtenstein have bound some 99% of all tariff lines at the HS eight-digit level and have lowered the bound tariffs on all products but textiles to their Uruguay Round final levels. The bound customs tariffs are specific on agricultural products (except seafood), and mixed on the other products. Customs tariffs on gas, petroleum, and related products have not yet been bound. Ceiling bindings on mostly agricultural products and clothing, with bound duties reaching 770% on meat products, leave considerable margins for modification of applied duties, and reduce somewhat the predictability of the tariff. The average bound rate of around 12% is higher than the average applied tariff; however, at end June 2000, the applied duties were found to be higher than the bound tariffs for three tariff lines at the HS eight-digit level. Switzerland and Liechtenstein have bound other duties and charges at 0%. They have reserved the right to invoke the special safeguard clause (under Article 5 of the WTO Agreement on Agriculture) for almost all agricultural products. However, except for a safeguard duty (under this Article) on imports of pork and pork products from 1 May to 31 December 1999, Switzerland and Liechtenstein have not applied contingency trade remedies (anti-dumping, countervailing, and safeguard actions) since 1982.

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Switzerland and Liechtenstein maintain a non-automatic licensing system for tariff-quota administration purposes, and automatic licensing on out-of-quota imports, on a range of products subject to mandatory reserve stock requirements, and on commercial imports of certain articles containing gold. Import prohibitions are maintained on health, safety, phytosanitary, and environmental protection grounds, or under international conventions to which Switzerland and Liechtenstein are signatories. However, the implementation of prohibition, authorization, and phytosanitary regimes may vary on the grounds of the origin of imports. For instance, import bans apply to, inter alia, potatoes, certain fertilizers, vine, and fruit trees from countries that are not members of the European and Mediterranean Plant Protection Organization (EPPO). Imports of meat and eggs (fresh or cooked), produced in a manner prohibited in Switzerland, must be labelled as such. Genetically modified organisms must be indicated on labels if they make up specified percentages of the total weight of foodstuffs or of inputs used in the production of foodstuffs.

Various incentive schemes are available to producers, mainly manufacturers of agricultural products. Some of the schemes are specific to either Switzerland or Liechtenstein. Exports of certain agricultural products are subsidized; export subsidies have been reduced under the WTO Agreement on Agriculture. Switzerland and Liechtenstein have dismantled virtually all restrictions on their exports, with the exception of measures maintained in compliance with international obligations and of controls on products containing gold.

Standards and technical regulations have been substantially harmonized with those of the European Communities; however, differences still exist in certain areas. Switzerland has also amended its legislation on competition with a view to aligning it on that of the EU. The remaining controversial issues include the non-prohibition of dominant positions by the Swiss legislation and its lack of automatic sanctions against unlawful restraints on competition. Liechtenstein relies on the competition-policy framework provided by the EEA. The WTO Plurilateral Agreement on Government Procurement, to which both Switzerland and Liechtenstein are signatories, is the main framework governing public purchases.

Switzerland and Liechtenstein revised their intellectual property legislation with a view to implementing the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). On parallel imports, the Swiss Federal Tribunal upheld the principle of international exhaustion in cases involving trade marks and copyright, and national exhaustion in a case involving patent rights. Liechtenstein has legally adopted the principle of international exhaustion for trade marks, copyright, and rights related to copyright (with the exception of rental rights), and EEA-wide exhaustion for patents.

Sectoral Trade Policy Developments

Services and manufacturing are the major sectors of the Swiss and Liechtenstein economies. Each has its own policies on trade in services, and acts independently in international fora, including the WTO. They have substantially liberalized their services sectors in recent years. Their commitments under the GATS largely reflect the state of competition in the sector; competition remains limited by monopolies or exclusive rights held by public or private companies in branches such as fire, natural damage, and workplace insurance, rail and air transport, and postal services, mainly in the case of Switzerland. Switzerland and Liechtenstein have maintained MFN exemptions under Article II of the GATS for various reasons, including promotion of common cultural objectives, immigration regulation, protection of the integrity of road infrastructure and the environment, or bilateral or regional agreements. Switzerland participated in the latest negotiations on financial and telecommunications services and further improved its commitments, mainly on telecommunications services.

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Except for incentive schemes largely oriented towards the processing of agricultural products, Switzerland and Liechtenstein do not have policies specific to manufacturing. With the exception of few products, standards and technical regulations, which had limited imports of manufactured goods, have been substantially harmonized with those of the EC. Nevertheless, non-tariff measures remain the major barriers to imports in branches such as motor vehicles and chemicals. Liechtenstein eliminated such barriers to its trade with the other members of the EEA following its membership; the MCSM has been established for the purpose of parallel marketability of products. Tariff protection for non-agricultural products (WTO definition, which excludes processed agricultural products, but includes mining and quarrying) averages 2.3%. Owing to the imposition of specific duties, tariff dispersion is more pronounced in manufacturing than in the other sectors, since the value of manufactured goods (mainly high-technology products) is not generally proportional to their weight.

Switzerland formulates agricultural policies for the customs union. The reforms launched in 1993 and pursued through the "Agricultural Policy 2002" initiative have reduced State intervention in the sector; public contributions to farm income through direct payments are mostly based on environmental considerations, and the scope of guaranteed and margin systems has been reduced substantially. However, government support to agriculture still represents nearly three fourths of gross farm receipts; exports of dairy products, cattle, horses, fruit, potatoes, and certain processed agricultural products are subsidized. The impact of the reforms on prices has been limited by the lack of competition in certain branches, the price-based schemes, and the replacement of marketing boards with institutions commissioned by the State. The "prise en charge" system (on imports of certain agricultural products), under which the allocation of tariff quotas is contingent upon local purchase also plays a role. As a result, domestic prices of agricultural products have remained high by international comparison. The negative effect of high prices of agricultural products used as inputs in agri-manufacturing has been dampened by the wide variety of incentives. Agriculture remains the most protected sector. The simple average ad valorem equivalent of MFN tariffs on agricultural imports is about 34%, nearly four times the overall average, with a maximum of 678%. Agricultural imports are also subject to licensing for health, sanitary, phytosanitary, compulsory reserve stock and tariff-quota management considerations, and to specified labelling requirements. Overall, agricultural policies remain complex.

Trade policy and trading partners

Switzerland and Liechtenstein have always supported the multilateral trading system. Their support for the strengthening of the WTO rules and disciplines in various trade-related areas, and for the setting of new rules and additional initiatives to secure market access, reflects the concern of medium-sized trading nations with advantages in services and modern export-oriented manufacturing, as well as their non-confrontational and consensus-seeking tradition. In addition, Switzerland continues to play a significant role in the WTO.

Steps taken by Switzerland and Liechtenstein to adjust their economies to the new international economic environment have resulted in a more efficient allocation of resources, which has contributed to a better exploitation of their comparative advantages and to trade performance in recent years. However, the reforms are still hesitant in certain highly protected sectors, mainly agriculture. Further liberalization of these sectors might enhance the competitive framework and contribute to lowering domestic prices, to the benefit of the economies.

The applied tariff, consisting exclusively of specific duties (modified quarterly on the basis of fluctuations in world prices), and ceiling bindings on most agricultural products do not ensure transparency and predictability. A shift to ad valorem duties may introduce more transparency in the tariff and reduce the frequency of modifications, thereby increasing predictability.

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TRADE POLICY REVIEW BODY

SWITZERLAND AND LIECHTENSTEIN

Report by the Government of Switzerland(part III)

RECENT ECONOMIC POLICY DEVELOPMENTS AND OBJECTIVES

(i) Domestic policy areas

1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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.

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7. 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.

8. 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.² 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.

9. 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.

10. 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.

11. 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 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

12. 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.³ These agreements concern mutual recognition of tests and certificates, government procurement, agriculture, free movement of persons, road and air transport, and research. These new

² For example, Montreal Protocol, Convention on International Trade in Endangered Species, Basle Convention and Convention on Climate Change.

³ In 1999, the EU accounted for 61.1 per cent of Switzerland's exports and 77.8 per cent of its imports.

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.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. 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.

19. 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.

20. 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

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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.

21. 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).⁴ It strongly supports an increase in the WTO regular budget in order to provide stable and predictable financing for technical assistance activities.

22. Assistance to the least-developed countries is a priority for Switzerland. This group of countries is the main beneficiary of Swiss official development aid.⁵ 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.

23. 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.

⁴ 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.

⁵ In 1999, Swiss development aid amounted to Sw F 1.46 billion.

TRADE POLICY REVIEW BODY

SWITZERLAND AND LIECHTENSTEIN

Report by the Government of Liechtenstein (part III)

I. TRADE POLICY DEVELOPMENTS AND FUTURE POLICY DIRECTIONS

1. For Liechtenstein trade policy means to find a balance between the economic operator's interests for progressive trade liberalisation in order to achieve further access to other markets and the task to take care of Liechtenstein's specific situation (limited area, limited human and natural resources and the already high percentage of non-Liechtenstein citizens in the workforce) in order to preserve its national identity.

(2) THE WORLD TRADE ORGANIZATION (WTO)

24. Liechtenstein is fully committed to the multilateral rules-based trading system and will continue to emphasise the importance of universal broad-based trade liberalisation.

25. Liechtenstein strongly supports progressive trade liberalisation at a multilateral level and the further strengthening of multilateral trade rules, as such rules are very important for small countries without their own means of enforcing power. Thus, Liechtenstein is a strong advocate for the launch of a broad and comprehensive round of multilateral trade negotiations in order to further improve gradual opening of markets, predictability and transparency, which are of utmost importance for a small open and outward-oriented economy. However, the active role of Liechtenstein in the WTO will also in the future remain limited due to limited human resources in the public administration. Also due to the customs union treaty by means of which Switzerland acts also on behalf of Liechtenstein in customs union issues.

26. What we need is a World Trade Organization adapted to modern economic and social realities. Rapid economic and technological changes demand a fitting common rules-based trading system.

27. Experience with the WTO during the last 5 ½ years has revealed some shortcomings of the system. Effective implementation of the WTO agreements must be kept as a central issue of the agenda of WTO. Without faithful implementation of the present agreements, potential new rules have less value and are not credible. Further efforts are necessary to integrate developing countries and countries in transition in the global economy. The impact of trade liberalisation and globalisation on employment and wealth distribution has to be addressed. Liechtenstein firmly supports all efforts to further liberalise multilateral trade rules, to eliminate protectionism, and to remove trade barriers and trade distorting measures. Consistency between WTO rules and environmental protection measures must be strengthened, as the fruits of an open trading system can only be fully enjoyed in a sound environment. Trade liberalisation and environmental conservation should be seen as mutually reinforcing. Issues that are closely trade related such as trade facilitation, electronic commerce, competition, TRIPS, investment or government procurement have to be tackled by the WTO. Public awareness as well as transparency of the WTO should be key words of our work, in order to improve the credibility of the system.

B. THE EUROPEAN ECONOMIC AREA (EEA)

28. The Agreement on the European Economic Area (EEA) extends most of the single market of the EU to the three EFTA countries Iceland, Liechtenstein and Norway. This means that the four fundamental freedoms of the internal market of the EU, the free movement of goods, services, capital

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and persons⁶, apply within the EEA basically in the same way as in the EU. The EFTA-EEA-States have the possibility to contribute to the shaping of this legislation. In addition, the Agreement includes flanking and horizontal policies in order to strengthen the internal market. These horizontal policies include research and development, statistics, education, social policy, the environment, consumer protection, tourism, small- and medium-sized enterprises, culture, information services and audiovisual services. The EFTA-EEA States participate in EU programmes in these fields and have a say in developing and managing them through participation in the respective committees. The common rules (*aquis communautaire*) are continuously updated by adding new EC legislation to the EEA Agreement.

29. Liechtenstein became a Member of the EEA Agreement on 1 May 1995 in order to secure its economic success on a long term basis. This was a radical step for Liechtenstein, requiring concentrated action at the political and administrative levels over an extended period of time, as well as far-reaching legal and organisational adjustments, not least in order to preserve the customs union between Liechtenstein and Switzerland. However, the efforts have been worthwhile – the outcome has been largely positive. The beneficial economic impact has been recognised and the EEA Agreement is well accepted as a form of integration adapted to Liechtenstein's needs and possibilities.

30. Major adjustments were necessary or still are in progress especially in the field of public services since the European policies as regards the liberalisation of the hitherto monopolised public areas such as telecommunications, postal services, electricity markets etc. are part of the EEA Agreement. However, the changes also have been regarded as chances to build up new business activities in fields where Liechtenstein had no big experience up to that point. As regards telecommunications and postal services the respective services had been provided by the then Swiss monopolists on the basis of bilateral agreements. So the newly developed activities in these areas also posed new challenges and offered new opportunities similar to those which were taken on much earlier in the financial services sector. It is too early to draw any conclusions in these fields and it has to be taken into account that the processes are still going on and are being extended to new fields. But so far, the overall experience in general is positive.

31. Glimpsing ahead Liechtenstein's integration policy will be challenged by some developments that take place beyond the sphere of influence of Liechtenstein. The enlargement process of the European Union continues. Also in the light of the process of further deepening the Union's existing policies and adding new areas to the European integration, the EU will develop significantly in the years to come (Monetary Union, Establishment of an Area of Freedom, Security and Justice, development of a more effective Common Foreign and Security Policy or the consolidation of the EU's existing system of government). Liechtenstein will have to develop forward-oriented strategies in order to be ready for the challenges of various possible scenarios, taking into account the policies of its EFTA- and EEA partners Iceland, Norway and Switzerland.

C. THE EUROPEAN FREE TRADE ASSOCIATION (EFTA)

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

33. The EFTA Convention as well as EFTA's free trade agreements cover free trade in industrial products, fish and marine products and processed agriculture products. In addition, the EFTA-countries have concluded bilateral agriculture protocols with each of the third country partners. (Due

⁶ In the EEA Liechtenstein has special rules as far as free movement of persons is concerned, by which nationals of EEA States are still subject to a permit from the Liechtenstein authorities to take up residence in Liechtenstein.

to the customs union treaty, Liechtenstein is covered by the bilateral protocol between Switzerland and the third country partner.) The agreements include rules on state aid, public procurement, competition and intellectual property. In addition, the agreements contain evolutionary provisions for services and investment.

34. EFTA's network of contractual relations is continuously expanded according to its policy of making a dynamic and independent contribution to improving economic conditions across Europe and beyond and of forging strong links with trading partners outside the continent. Starting in 1992, the EFTA States have concluded free-trade agreements with 15 countries. They have in addition declarations of cooperation with nine states or group of countries, respectively. Free trade negotiations with Canada and Jordan are nearly finalised. First rounds of negotiations with Mexico have just taken place; formal negotiations with Chile are going to be opened in autumn. Negotiations are in progress with Egypt, Jordan, Cyprus and Tunisia. The EFTA-States are actively studying the regional trade arrangements developments in Asia.

D. CUSTOMS UNION TREATY/ECONOMIC INTEGRATION WITH SWITZERLAND

35. Switzerland is a key partner of Liechtenstein in many respects. The customs union treaty between Switzerland and Liechtenstein of 1923 has strongly influenced the political and economic development of Liechtenstein in the 20th century. The economic integration between the two countries has been deepened through the conclusion of further 50 agreements between the two countries in the course of the years (e.g. the Postal Treaty of 1978 (dissolved in 1999), Currency Treaty of 1980 (the Swiss franc has been introduced as legal tender in Liechtenstein already in 1924), the Patent Protection Agreement of 1978, several agreements on the Movement of Persons and Social Security, the Treaty on Value Added Taxes of 1994, Agreement on direct insurance of 1996.)

36. The customs union treaty has long been the basis for Liechtenstein's integration in Europe, manifested through the application of the free trade agreement between Switzerland and EU to Liechtenstein and Liechtenstein's participation in EFTA. Since Liechtenstein became a member of the EEA in 1995 but Switzerland refused that membership, the integration paths of the two countries are somewhat different now. With the support of the EU and Switzerland it became possible for Liechtenstein to belong to two economic areas - the EEA and Switzerland - at the same time.

37. The main provision of the customs union treaty between Liechtenstein and Switzerland lays down that the Swiss customs legislation – as well as any other Swiss federal legislation whose application is called for by the customs union – is applicable also to Liechtenstein, as long as the customs treaty is in force and with the exception of law incompatible with the EEA rules. In addition, all trade and customs treaties signed and ratified by Switzerland with third countries are automatically applied to Liechtenstein under the customs treaty. At the same time Switzerland is empowered to represent Liechtenstein in matters of this nature and to sign such treaties on behalf of Liechtenstein as well (article 8 of the customs treaty). This article 8 has been changed twice: First in 1990 in order to enable Liechtenstein to become party or member on its own to international treaties and in international organisations in the areas covered by the customs treaty; second in 1994 in order to enable Liechtenstein to become a party to the Agreement on the European Economic Area (EEA) while remaining part of the bilateral customs area with Switzerland, the latter not being a member of the EEA.

38. Future developments of the existing close links between the two countries will strongly depend on the integration policy Switzerland will choose towards the EU.

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Members expressed their appreciation to the Japanese delegation for their oral and written responses to the large number of questions posed by them, and for the Japanese delegation's undertaking to provide written responses as soon as possible to any outstanding queries.

In conclusion, it is my view that this Review has provided Members with a much better understanding of Japan's trade and trade-related policies, particularly regulatory and other structural reforms. Members were pleased to see signs of Japan's economic recovery; they strongly urged Japan to maintain the momentum of structural reform so as to ensure that the recovery is sustained. It is my sense that Members were reassured by Japan's commitment to multilateralism; nonetheless, they urged Japan to ensure that bilateral and regional arrangements were WTO-consistent. Members also looked to Japan for strong leadership in pursuing future multilateral trade liberalization, including in any new round of negotiations at the WTO.

END