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JOINT TRADE POLICY REVIEW

SWITZERLAND AND LIECHTENSTEIN

Minutes of Meeting

Chairperson: H.E. Dr. Iftekhar Ahmed Chowdhury (Bangladesh)

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Note: Advance written questions and the written answers provided by the delegations of Switzerland and Liechtenstein, as well as oral comments presented by the representatives of Switzerland and Liechtenstein, will be issued as WT/TPR/M/77/Add.1.

I. INTRODUCTORY REMARKS BY THE CHAIRPERSON

1. The joint Trade Policy Review of Switzerland (undergoing its third Review) and Liechtenstein (first Review) was held on 4 and 6 December 2000. The Chairperson, H.E. Dr. Iftekhar Ahmed Chowdhury (Bangladesh), welcomed the delegations of Switzerland, led by Ambassador Luzius Wasescha, and of Liechtenstein, led by Ambassador Norbert Frick. He also introduced the discussant, H.E. Mr. Milan Hovorka (Czech Republic) and reminded Members that the discussant would speak in his personal capacity and not as a representative of his country. In accordance with the established procedures, the discussant had made available, in advance, an outline of the main issues he intended to raise.

2. The Chairperson recalled the purpose of the Trade Policy Reviews and the main elements of the procedures for the meeting. The reports by the Governments of Switzerland and Liechtenstein were contained in documents WT/TPR/G/77/CHE and WT/TPR/G/77/LIE, respectively, and that of the WTO Secretariat in document WT/TPR/S/77; the main issues to be raised by the discussant were contained in document WT/TPR/D/56. Copies of advance written questions submitted by Uruguay; Argentina; Canada; the European Union; Chile; Hong Kong, China; Australia; Norway; Thailand; Japan; the United States; and India had been transmitted to the delegations of Switzerland and Liechtenstein (Annex I in document WT/TPR/M/77/Add.1).

II. OPENING STATEMENT BY THE REPRESENTATIVE OF SWITZERLAND

3. The representative of Switzerland noted that since 1923, Liechtenstein had been an integral part of the Swiss customs territory as a result of a customs union, and Liechtenstein had been using the Swiss franc as its currency since 1924. Over the years, many economic arrangements between the two countries had made for very advanced economic integration. In the WTO, Switzerland represented Liechtenstein in matters pertaining to the circulation of goods; in the case of services, government procurement, and intellectual property, except for patents, the partners defended their own interests.

4. At the time of its previous Review, in 1996, Switzerland had described the introduction of the legislation needed to fulfil its obligations under the WTO Agreements, as well as its liberalization programme for the domestic market.

5. Switzerland's economic performance had been marked by persistent weakness for more than half a decade, but a clear improvement had taken place over the past four years. The recovery, which began in 1997, had nonetheless been temporarily affected by the Asian crisis. However, as a result of the worldwide economic boom and a continuing relatively dynamic domestic situation, overall economic growth had picked up again in the previous year. Thus, in 2000 the economic growth rate of 3.3% was the highest for a decade. Employment had responded promptly and flexibly to the improved production outlook (the unemployment rate was 1.7% in December 2000). The pace of the economy was very good, while there were some signs of increasing tension on the labour market in view of difficulties in recruiting specialists. The outlook for the industrial sector was nevertheless favourable; the sector would be little affected by higher oil prices because of its decreasing dependence on oil.

6. Switzerland's current account surplus, clearly on the rise, was a reflection of its economy's strong international orientation. In fact, in recent years, more than 80% of the surplus had come exclusively from capital income, particularly income from direct investment abroad.

7. International organizations were also of the view that the present expansion could lead to a firm, sustainable growth in the years ahead. Some of the encouraging elements were: a healthy macroeconomic environment, with strong price stability, and a gradual improvement in government finance that seemed certain to last because of new constitutional provisions; structural reforms, mainly by enterprises, over the past decade; the traditionally high flexibility of labour, further strengthened by reforms in the training system; and lastly, the return to full employment. Consistent implementation of the bilateral agreements with the EU would further strengthen the opening of domestic markets, flexibility, effectiveness and, the Swiss economy's international competitiveness.

8. In the future, Switzerland should therefore be in a better position than it had been over the past decade to exploit its economic potential and take advantage of the growth opportunities afforded by new technologies and by globalization, although the risks should not be underestimated.

9. Switzerland attached great importance to the WTO because international trade and investment played a predominant role in the Swiss economy and in the formulation of economic policy.

10. In 1999, the manufacturing industry and the services sector accounted for 17.4% and 69.5% of the gross national product, respectively. Switzerland had strengthened its key sectors of high technology industrial production, finance, and insurance. Exports and imports of goods and services represented a considerable share of the gross national product, with 41.1% and 36.9%, respectively. A large number of enterprises exported over 90% of their output. With globalization and the opening of neighbouring markets in central and eastern European countries, enterprises had been buying raw

materials and intermediate goods under the best conditions on highly competitive international markets and had been concentrating in Switzerland on high-technology and high-value-added operations. Importation had been facilitated by speedy and effective customs procedures and an average customs duty of 2.3% on manufactures. Traditionally, Switzerland did not resort to anti-dumping measures, countervailing duties or safeguards. Moreover, it had never had any textiles and clothing quotas. In the industrial field, the Swiss market was very open and Switzerland also aimed at open world markets for its products.

11. The wide opening of the Swiss economy had led to a virtuous circle with the importation of the necessary goods under world market conditions, and the need to achieve high productivity and competitiveness to maintain and win export market shares. All domestic enterprises were faced with foreign competition. Economic activity did not involve any State subsidy, apart from processed agricultural products, which benefited from a system based on the price differential between domestic and world raw materials. The large restructuring of the textile industry in the 1990s, with a drop of about 40% in employment, had taken place without State intervention, either in terms of trade policy, or any special support measures. Only enterprises in regions exposed to major problems had been able to obtain State aid.

12. Switzerland's small size and the limited domestic consumption potential also meant that a number of key industrial sectors, the big banks and insurance companies had to pursue their expansion abroad. The effects on Switzerland of these international activities were not negligible; however, research and production activities and special skills and decision-making centres were still maintained in Switzerland.

13. Within this international context, the Swiss authorities pursued a policy geared towards growth and steady improvement of the framework conditions linked to developing a high-performing industrial and services structure. The underlying idea had been to foster the necessary conditions for an innovative, competitive and job-creating economy based on national and international dimensions, and on the need for sustainable development. Aside from macroeconomic stability, the main objectives of economic policy could be summed up in five points:

- strengthening the competitiveness of the industrial and the tertiary sectors, with special emphasis on open markets and free formation of prices, as sources for a sustainable increase in productivity;
- strengthening the value-added potential with the improvement of the framework conditions to favour the creation and development of enterprises, the promotion of a flexible labour market, the promotion of the Swiss economic hub as a place for investment and production, and the development of competitive structures in the regions;
- strengthening vocational training and research through reforms and creation of new special schools within the university networks;
- the highly important objective of social peace, with a guarantee of a suitable substitute income for the unemployed, social protection against changes in economic and technological structures, and support for strengthening the understanding between social partners; and
- the proper functioning of world markets, and extension and strengthening of the multilateral trading system and of Switzerland's economic relations.

14. The implementation of a number of WTO Agreements had been a major spur and had given an international dimension to the liberalization processes that was part of the Government's legislative programme.

15. Switzerland had adapted its standards in many sectors (machinery, electrical equipment, medical instruments, pharmaceuticals, telecommunications equipment, motor vehicles, and tractors) to those of its main trading partners, particularly the EU. Harmonization projects were under way in other areas (chemicals, construction, and in-vitro diagnosis). From 1996 to 2000, the percentage of Swiss standards in conformity with international standards had risen from 65% to 87%. This sharp rise was clearly a part of Switzerland's commitments under the WTO Agreement on Technical Barriers to Trade. It also helped to strengthen competition on the Swiss domestic market because it facilitated access for foreign products.

16. Switzerland had signed the WTO Agreement on Basic Telecommunications. The liberalization of telecommunications had started on 1 January 1998 on the basis of the Telecommunications Law of 30 April 1997. Reforms in the subsector, had a positive impact on prices and supply of telecommunications services.

17. The implementation of the WTO Agreement on Government Procurement (GPA) had significantly strengthened liberalization in Switzerland. At the federal level, the opening of the market had been extended to services and construction; moreover, a right of recourse had been introduced with the establishment of an independent commission. At the cantonal level, the opening of markets to enterprises from a number of partners in the GPA had been a great stimulus for liberalization among all the cantons; an intercantonal concordat had been ratified by all 26 cantons, with thresholds often lower than those at the GPA. Each canton had also set up a recourse body. While it had not yet been possible to evaluate the economic impact of opening up markets, stronger competition had been noted in many regions in the construction sector. The GPA had also formed the basis for the bilateral agreement with the EU. A report would be available on 15 December 2000.

18. In June 1996, a new constitutional article (Article 104) on agriculture had been adopted by 77% of the voters and all of the cantons. This Article created the required framework for reshaping agriculture and agricultural policy. It described the many tasks to be performed by agriculture (multifunctionality) in relation to public goods, and stipulated that these tasks had to be accomplished through production that was both sustainable and market-oriented.

19. The Government's goals stemmed from the constitutional article and the Federal Law of Agriculture of 28 April 1998. These included: (i) sustainable, competitive agriculture had to be in a position to ensure its place in the Swiss society, where industry and services predominated; (ii) agriculture had to be in a position to offer competitive prices, on the domestic and foreign markets, for goods and services that responded to needs; and (iii) agriculture had to use resources in a sustainable manner and so contribute to preserving biodiversity, maintenance of the countryside, and development of rural areas.

20. The strategies to achieve these objectives consisted of separating price policy from income policy and granting State contributions for services provided in the public interest and in the environmental field:

- the production of foodstuffs and renewable raw materials was, in principle, regulated by the market. Consequently, the few measures still intended to support the market were designed to have the least possible influence on market mechanisms. The State's influence on the markets had, moreover, greatly diminished;

- the State made direct payments for services for which there was no market, for example, maintenance of the countryside and preservation of natural resources. Moreover, the State paid for particular services supplied at the request of society for the protection of the environment and of animals. The payments were not to be linked to production.

21. "Agricultural Policy 2002" (PA2002) was designed to translate the provisions of the constitutional article into reality and, therefore, to implement the government-defined strategies and achieve their objectives. These strategies were:

- free formation of prices: guaranteed prices, indicative prices and intervention prices had been abolished, and border protection covered no more than the commitments entered into, in keeping with WTO rules and free-trade agreements;
- market measures: apart from border protection, a few market support measures still remained, but the State no longer played any direct role. The Confederation gave lump-sum grants for services in the case of meat and sugar;
- obligation to reduce market outlays: within five years from the entry into force of the new Law on Agriculture, market support funds had to be cut by one third compared with 1998 (from Sw F 1.2 billion to Sw F 0.8 billion);
- direct payments subject to environmental criteria: direct payments that were not linked to production, and that met the WTO green box criteria, were granted only to applicants who supplied the necessary environmental services; and
- stabilization of the Confederation's outlays: the financing for agricultural support was fixed in a financial package for the years 2000 to 2003. No increase in outlay was envisaged.

22. The changeover in 1999 from a guaranteed price and marketing policy to free formation of prices had taken place without any major macroeconomic difficulties. Agriculture and the upstream and downstream sectors going through a period of adaptation, was marked by specialization on the one hand and by diversification on the other, as well as mergers (e.g. the dairy market), and new forms of collaboration among farmers. The new environmental strategy had been crowned with success.

23. The reforms undertaken in the 1990s had led to thorough changes in agriculture. Agriculture had succeeded in maintaining its market share despite the opening of frontiers, and had become more competitive. In 1999, good environmental production methods had been applied to 95% of the usable farmland, against only 18% in 1993 (First Agricultural Report by the Federal Office of Agriculture, OFAG). However, not everything was finalized. At both the policy and psychological levels, any process of reform could backfire at any time.

24. Switzerland played an active part in the work under the Agreement on Trade-Related Aspects of Intellectual Property Rights. It had one of the most highly developed systems of protection in the world. It was adapting its law on patents, copyright, and industrial designs to the new technologies. Internationally, Switzerland was endeavouring to foster better protection of geographical indications, for industrial and agricultural products, as well as services.

25. The new law on cartels and other competition constraints entered into force on 1 July 1996. The Competition Commission had focused on the fight against hardcore cartels (horizontal agreements on prices, quantities, market allocation). It had prohibited, *inter alia*, cartels in vitamins and medicines, agreements on the distribution of books and music scores, and a number of unlawful

practices by companies with market dominance, particularly in sectors undergoing liberalization, such as telecommunications or energy. The number of mergers notified had steadily increased; some thorough examinations had proved necessary but none had been prohibited. The Commission had also given the authorities a number of recommendations and advisory notices in connection with the adoption or modification of health, agriculture, and energy legislation. Typically, these related to markets where greater competition was desirable.

26. A procedure was under way for a partial review of the law, the crux of which was the introduction of direct penalties. Indeed, it was only possible to determine that the law had been breached. Administrative and/or criminal penalties might be imposed only in the case of a further offence. The law had to be amended to strengthen both the powers of the authorities in matters relating to competition and its preventive effects.

27. Many cases dealt with, whether in the context of cartel restrictions or merger controls, had an international dimension, with ramifications and effects in several countries. A more comprehensive approach – within the WTO – would be appropriate in order to curb anti-competition practices hampering market contestability. Consequently, Switzerland supported the establishment of a multilateral agreement on competition.

28. Switzerland also played an active part in the Working Group on Trade and Investment established by the 1996 Singapore Ministerial Conference. Switzerland, among the world's largest investors abroad, recognized the very close relationships between trade and investment. As at December 2000, Switzerland had concluded 96 bilateral agreements on investment promotion and mutual protection. It firmly supported multilateralization of the many agreements in force throughout the world by means of a global agreement on investment within the WTO, so as to secure increased transparency, legal certainty, and effectiveness.

29. Switzerland viewed protection not only of the national environment, but also of the world environment, as essential. As a result, Switzerland played an active part in the negotiations on international environmental agreements, a number of which included measures with trade effects. Switzerland was of the opinion that the adoption of such measures through multilateral instruments was the best guarantee to ensure that they were necessary for the protection of the environment, that they were neither arbitrarily nor unjustifiably discriminatory, and that they did not constitute disguised restrictions on international trade. To avoid pointless conflict, Switzerland deemed it indispensable to clarify the relationship between the WTO and environmental agreements (Swiss proposals contained in WTO documents WT/CTE/W/139, WT/CTE/W/168).

30. Switzerland recognized the key role of the International Labour Organization, confirmed at the Social Development Summit in Copenhagen in 1995, and the WTO Ministerial Conference in Singapore in 1996. Switzerland endorsed the conclusions of the 1998 Declaration on Fundamental Rights and Principles at Work. Switzerland had also lent its support to the 1999 Convention on the Worst Forms of Child Labour, which was intended to eliminate child slavery and forced labour, offering children for the purposes of prostitution or drug trafficking and other illicit activities, hazardous work for children, and forcible recruitment for use in armed conflict. Switzerland attached great importance to the work on social norms within the specialized agencies and to ratification of their conventions by all nations. While trade did have links to social norms, the responsibility for applying equitable norms had to remain with specialized bodies. However, the Swiss Government had deemed it judicious to tell its WTO partners of the status of ratification and domestic implementation of these instruments (paragraph 23 of the Report by the Government).

31. In its relations with its main economic partner, the EU, Switzerland had notably strengthened its economic integration links (the free-trade relations dated back to 1972) by concluding seven

agreements (on government procurement, free movement of persons, road transport, air transport, technical standards, agriculture, and research). They were widely supported by business circles and the trade unions, and had been approved by a majority of 67.2%, in a popular vote. They should enter into force in the course of 2001 and would improve integration of the Swiss economy in the EU internal market. The EU would also benefit from better access to the Swiss market. The agreements had been negotiated in keeping with the spirit of the relevant provisions of the WTO Agreements.

32. A strategic objective of the Swiss Government was EU membership. However, the application to join the EU would be reactivated only when the Government had obtained the essential domestic political support. In the meantime, Switzerland would continue to improve bilateral relations with the EU through agreements that answered to the two partners' growing needs for interdependence.

33. At the EFTA level, agreements were reached with Estonia, Latvia, Lithuania, Morocco, the Palestinian Authority, Macedonia and, at the end of November, Mexico. All of these agreements formed part of the EFTA countries' goal of offering their enterprises market-access conditions similar to those of EU enterprises. Negotiations had started with Croatia in October, and had been initiated with Chile in December 2000; others were continuing, with Canada, Cyprus, Egypt, Jordan, and Tunisia, or were planned, with South Africa and Singapore. This free-trade-agreement strategy also complemented the goals pursued by Switzerland within the WTO.

34. Switzerland attached particular importance to integrating developing countries in the multilateral trading system, more particularly through market access and trade cooperation. Since March 1997, Switzerland had been applying a new generalized system of preferences, with the objective of facilitating imports from the least developed, developing, and transition countries. To cushion the effects of the erosion of tariff preferences, following the Uruguay Round's customs duty reductions, the coverage of agricultural products had been increased. No significant progress had been made in the case of manufactures, because Switzerland had already offered a complete tariff reduction for almost all tariff headings apart from textiles and clothing, with a 50% reduction for developing countries, and 100% for the least developed. Several countries had reached a development level consistent with specific criteria based on an OECD definition, and had therefore been excluded from GSP treatment: Cyprus; Hong Kong, China; Mexico; the Republic of Korea; and Singapore. In recent years, China and India had been preponderant in taking advantage of the Swiss system.

35. With regard to technical assistance, Switzerland was active on several fronts, as mentioned in its Government Report. Switzerland also firmly supported an increase in the WTO regular budget for technical assistance. The complexity of the WTO Agreements and the importance of faithful implementation of their provisions warranted an expansion and deepening of the current cooperation programmes.

36. As pointed out in its Government Report, Switzerland was in favour of the launching of a new round of negotiations sufficiently broad in scope to satisfy all 140 Members of the WTO. In the meantime, Switzerland would continue to play an active part in WTO work so as to ensure faithful implementation of the present agreements, pursue the negotiations under way, and prepare a new round.

37. While Switzerland was strong in services and in manufactures, sectors such as agriculture were still difficult for its economic operators, for its Government, and for its trading partners. Following the Uruguay Round, its agricultural sector had taken up many challenges and would continue to move ahead unless its path was blocked by excessive demands from within and from without.

III. OPENING STATEMENT BY THE REPRESENTATIVE OF LIECHTENSTEIN

38. The representative of Liechtenstein thanked his Swiss colleague for his introduction in which he also referred to the special relationship between their two countries; the relationship had led to a deep integration of their economies. For this reason, the first review of Liechtenstein under the TPRM had been made in common with Switzerland. His statement would not deal with trade matters and policies, for which Switzerland was competent, but would focus on features and policies that were specific to Liechtenstein.

39. The close relationship and complex connections between the two countries were based on a Customs and Monetary Union and on a number of other bilateral agreements.

40. He recalled the trade and economic policy environment of Liechtenstein, noting that:

- (i) on application of the 1923 Customs Union Treaty, Liechtenstein had become an integral part of the Swiss customs territory. Trade policy measures affecting imports were formulated by Switzerland and applied in Liechtenstein. Commercial treaties and trade agreements concluded by Switzerland also applied to Liechtenstein. In matters falling under the Customs Union Treaty, namely trade in goods and agricultural products, Liechtenstein was represented by Switzerland; all imports and exports were subject to the trade regime set up by Switzerland. Cooperation in services between the two countries had been limited to mainly telecommunications and postal services. In all other services branches Liechtenstein acted independently.
- (ii) The exception to the competence of Switzerland in trade matters was on imports of products covered by the EEA Agreement, originating from the other EEA Member States and destined for Liechtenstein. In 1995 Liechtenstein had become a member of the European Economic Area (EEA), in which Switzerland did not participate. It was a peculiarity of Liechtenstein to belong to two internal markets, to the EEA and the Swiss internal markets. In its market, Liechtenstein allowed the sale of goods produced and traded in conformity with either Swiss or EEA rules. In order to make this possible Liechtenstein had had to establish, *inter alia*, a Market Control and Surveillance Mechanism, which was described in detail in the Secretariat Report.
- (iii) The agricultural policy formulated by Switzerland applied to Liechtenstein to the extent necessary for the proper functioning of the customs territory, including all Swiss trade policy measures affecting imports and exports. Liechtenstein had so far applied its own policy in some agricultural areas. The policy objectives and instruments used, e.g. the direct payment system, were, however, largely identical. The two countries were negotiating which rules of the Swiss internal agricultural market should also be applied in Liechtenstein. Liechtenstein did not subsidize exports. Very few Liechtenstein producers of processed agricultural products benefited from the export subsidies regime of Switzerland. Milk or dairy products accounted for about two thirds of the value of agricultural output. The Government of Liechtenstein set quotas to limit the production of milk to the self-sufficiency level. The overall self-sufficiency level in basic food production amounted to only 43%. As mentioned in the Secretariat Report, agriculture was not of great economic importance and contributed to only 1% of employment in Liechtenstein. Nevertheless, the State and the society attached great importance to a sustainable agricultural activity necessary for the preservation of natural resources and the maintenance of the landscape.

41. The current economic situation of Liechtenstein could be considered as highly prosperous. Since Liechtenstein had only recently started a project to enable the calculation of GDP figures, the

steady growth of the Liechtenstein economy so far had to be shown by other data. During the preceding five years, the number of workplaces had increased in total by 12% (in the past 10 years by almost 30%), exports had improved by nearly 40% and 11 new banks (out of a total of 16) had taken up business. The combined balance sheet of the banks had risen by about 32%. Income from gainful activity of both residents and commuters had grown by 20.7% since 1994. Liechtenstein had the same low inflation rate as Switzerland. Interest rates were stable, with only few, slight increases. Public finance had shown a surplus for some years. After a peak of 2% at the end of 1998 the unemployment rate had constantly decreased and currently stood at 1.2%. According to an estimate by the Liechtenstein Office for National Economy, the number of jobs would have increased by a further 2.5% by the end of 2000. Most probably the public budget would also be balanced in 2000.

42. The short-term economic outlook was good. There were, however, constraints on further growth, namely the very low supply of, and the high prices for, land and property, as well as the dried-out labour market. Liechtenstein's economy offered 25,000 jobs, which meant 75 jobs for 100 inhabitants (population of 33,000 inhabitants). Around 10,000 jobs, or 40% of total employment, were held by cross-border workers. More than 60% of all jobs were held by non-nationals.

43. Liechtenstein was a small, open, and broadly diversified economy. There was no significant domestic market and thus production was almost entirely for export. Liechtenstein's economy was deeply integrated into international trade. Liechtenstein was a clear advocate of the free-trade principle, starting at a regional level as in EFTA with its 16 free-trade agreements, or in the EEA with its 18 Member States, and ending at a multilateral level as in the WTO. The Government's view was that regional free-trade agreements were complementary to multilateral trade liberalization steps, as the former could help to speed up further liberalization steps at the multilateral level.

44. For decades the Liechtenstein Government had followed a very liberal economic policy that was open to the world and was aimed at keeping state intervention to a necessary minimum. Liechtenstein had neither public funding (subsidies) for private undertakings (with the exception of the agricultural sector), nor a public policy specifically intended to attract new foreign direct investments. The main goals of the Government were the sustainable development of all sectors of the national economy, and the preservation of the existing positive framework conditions for economic operators. However, any public financial support for private undertakings would be excluded.

45. The low level of activities of the Government in the economy, combined with the scarcity of natural resources, unfavourable topography for farming, and the restricted availability of human resources had led to the development of an international competitive economy that concentrated on niche and high-technology products. The manufacturing sector in Liechtenstein still offered almost half of all jobs; a very high percentage for an advanced economy. Furthermore, Liechtenstein's manufacturing sector had three times more employees on its payroll abroad than inside the country. The productivity of Liechtenstein's manufacturers was very high by international standards. In 1999, around 43% of industrial products had been exported to other EEA-countries; around 13% to Switzerland; and 44% to other countries. Liechtenstein's exports were also, in geographical terms, broadly diversified. The main export destinations were the United States; Germany; Switzerland; France; Italy; Austria; the United Kingdom; Chinese Taipei; Spain; and Hong Kong, China.

46. Liechtenstein became a full EFTA member in 1991. Until then, Liechtenstein had been covered by the EFTA Convention through a Protocol under which its interests had been taken care of by Switzerland. In 1995, Liechtenstein became a Member of the EEA Agreement in order to secure competitive market-access conditions for its goods and services providers in the 17 partner countries. Under the EEA Agreement, the free movement of goods, services, capital, and persons was applied in the same way as in the EU.

47. Liechtenstein's EEA membership had led to further economic liberalization. Privatization had been necessary or was still in progress in the field of public services, such as telecommunications, postal services, electricity markets, etc. The opening up of the Liechtenstein public procurement regime had been a consequence of both its EEA membership and of its being a party to the GPA.

48. Liechtenstein strongly supported the launching of a broad-based round of multilateral trade negotiations in the WTO. Only a comprehensive new negotiation round would enable all WTO Members to obtain results in fields of their particular interest. It should be in the interest of all Members that the WTO be further developed and adapted to modern economic and social realities. Furthermore, the integration of the developing countries into the system had to be improved and environmental protection given more consideration.

IV. STATEMENT BY THE DISCUSSANT

49. The Discussant (H.E. Mr. Milan Hovorka) said that Switzerland and Liechtenstein's remarkable record in international trade had its roots in many factors, including reliance on open trade and liberal economic policies, the ability to maximize comparative advantages, and the emphasis on effectively functioning institutions. These factors had resulted in a high level of integration of both countries in the world economy and had propelled them to the top of the most competitive economies.

50. A joint review of the two countries was carried out mainly because of the highly integrated character of their economies. Switzerland and Liechtenstein had formed a customs and monetary union. Their mutual ties were strengthened by a wide range of agreements and cemented by a long history, tradition and culture. The two countries also faced similar domestic and external changes and challenges and had to cope with like market rigidities.

51. This was the third review of Switzerland, but only the first of Liechtenstein. Nevertheless, the timing of the previous review of Switzerland, four years earlier, was a useful reference point from which to consider the evolution of policies and practices. Both countries had been at a sort of crossroads: the EEA Agreement had entered into force, with all uncertainties resulting from Switzerland remaining outside and all expectations linked to Liechtenstein being inside. Major customs-union-related institutional changes also dated back to that period, and Switzerland was in a substantially different economic situation.

52. In the first half of the 1990s, the Swiss economy had been mired in stagnation and was suffering from a number of structural problems. This situation had prompted the authorities to proceed with a package of domestic reforms and structural changes. It had not been possible to judge the package of measures at the previous Review, since most of them had been adopted or introduced only shortly before the review date. The discussant recalled the performance of these reforms, as set out in both the Secretariat and Government Reports.

53. He raised questions for the Swiss delegation about the major risks to the short-term macroeconomic prospects; about the operational approach to a new fiscal policy framework after 2001, when the Confederation budget was supposed to be balanced over the cycle; about the expected contribution of the fiscal equalization framework under preparation to the harmonization of tax rates across cantons; the advantages of tax competition between cantons; and about policy issues related to Switzerland's large external current account surplus.

54. The discussant also addressed questions to the Liechtenstein delegation regarding the extent to which growth had been steady or whether it was subject to some fluctuation; how the economic cycle in Liechtenstein was dependent on that of Switzerland; and about the lack of data on GDP (expected changes) and reasons for this.

55. Given that Liechtenstein was a member of the WTO and the EEA, and that Switzerland formulated common trade policy measures and objectives for the Swiss-Liechtenstein union, he queried the role of Liechtenstein in the decision-shaping phases of the Swiss, and therefore the union, trade legislation.

56. In the Swiss-Liechtenstein union, Swiss legislation on trade in goods applied in Liechtenstein's relations with all countries except EEA members, in which case EEA rules were applicable. The difference in rules was limited to some technical regulations, a few products carrying different tariffs, and salt. He asked about differences in rules governing trade with other countries; Liechtenstein's Market Control and Surveillance Mechanism (MCSM); and the impact of the new

Swiss-EU agreement on technical barriers to trade on the gap between EEA and Swiss rules, and thus the MCSM.

57. On the common customs tariff, consisting entirely of specific duties, the discussant sought clarification on customs valuation for internal taxation purposes, on assessment of tariff protection, and on any future changes or simplification. He looked forward to the replies to questions raised by members regarding other elements, including concerns about the predictability of applied rates, such as the "threshold-price" system, which consisted of the quarterly modifications of duties on fodder products and seeds, and ceiling bindings on most agricultural products and clothing.

58. Referring to non-reciprocal preferential treatment granted to developing countries, the discussant indicated that the Swiss-Liechtenstein Generalized System of Preferences was quite generous, although its coverage was reduced by graduating some countries from preferential treatment. He asked what concrete measures Switzerland and Liechtenstein would be ready to consider to improve market access for products originating in least developed countries.

59. The discussant was appreciative that Switzerland and Liechtenstein had not resorted to anti-dumping, countervailing or safeguard measures since the early 1980s, although the national legislation was in place. He invited the two countries to share with the participants their unique experience of open and liberal economies that did not have problems with external unfair trade practices or substantially increased imports.

60. With respect to competition policy, Switzerland had implemented reforms, but various cartels remained an important impediment to retail competition and a factor in the relatively high domestic consumer prices. He was interested to know whether the new Cartel Law, which was based on the principle of abuse, the lengthy proceedings, and Comco's lack of authority to impose direct sanctions were among the reasons for the situation in the area of retail competition.

61. The discussant sought clarification on Switzerland's experience in extending non-discrimination in public procurement to cantonal and local levels, and in the case of Liechtenstein, on the difference between threshold values set by the EEA and the Plurilateral Agreement on Government Procurement.

62. Switzerland and Liechtenstein had demonstrated that economic integration was possible both on regional and global scales and that these two processes could be, and were, mutually supportive. Bilateral and regional agreements concluded by the two countries, and their genuine commitment to a new and comprehensive round of WTO trade negotiations testified to that. The free-trade agreement with Mexico was likely to enter into force on 1 July 2001; it covered not only liberalization of trade in industrial products and services, but also foreign direct investment, protection of intellectual property rights, and government procurement. The discussant invited the delegations of Switzerland and Liechtenstein to comment on the wide coverage of this agreement in the light of a lack of progress on discussions on a new round in the WTO.

63. He mentioned Switzerland's relations with the EU (including the package of seven bilateral agreements and possible future developments in this regard) and queried the difficult and sensitive issues to be addressed in upcoming popular debates on eventual EU accession negotiations. He also asked about the integration strategies that Liechtenstein intended to develop on the basis of the policies of the EFTA, EEA, and Switzerland.

64. Noting that Switzerland and Liechtenstein pursued very active policies on environmental protection, the discussant requested comments on the link between environmental performance and economic competitiveness, cooperation between the public and private sectors on environmental

issues, the place of these issues in trade policy objectives, consistency of fundamental environmental principles and multilateral rules, and on the further promotion of environmental sustainability under the "Agricultural Policy 2002" initiative. Public transfers to farmers were still important, trade barriers were high, and the State still intervened in the marketing of some agricultural products through commissioned companies, despite liberalization steps under the initiative. In the light of this situation in agriculture, the discussant sought clarification on the limited role the State was to play following the introduction of all the elements of the initiative, as indicated in the Report by the Swiss Government.

65. The services sector played an important role in both the Swiss and Liechtenstein economies. The sector, including financial services, which was dominated by a few large banks, faced significant challenges resulting from external competitive forces and technological developments. Moreover, the tourism subsector was negatively affected by market rigidities and the high prices of inputs from the protected sectors. He noted steps taken towards liberalizing the services sector, and asked questions on ongoing reforms, and those under preparation to strengthen supervision standards in the financial services subsector; on the special privileges still granted to cantonal banks in Switzerland; on the use of the internet for electronic commerce in Switzerland and Liechtenstein; and on further steps envisaged to maintain the liberalization momentum in postal services, rail transport services, and other subsectors, including electricity. He sought clarification from the Liechtenstein delegation on the repeal of the bilateral Postal Treaty with Switzerland in 1999.

V. STATEMENTS BY MEMBERS OF THE TRADE POLICY REVIEW BODY

66. The representative of Uruguay noted that trade between his country and Switzerland was minimal, with Uruguay running trade deficits. His country had the potential to increase agricultural exports to Switzerland; however, restrictions and barriers erected by Switzerland had prevented this. He referred to these barriers (as presented in the Secretariat Report) and said that the support provided by the Swiss Government to agriculture was equivalent to the total value of Uruguay's exports. Referring to a passage of the Report by the Swiss Government, he said that the alleged support provided for the integration of developing countries into the multilateral trading system (through market access) could hardly be effective since the agriculture sector, which was of a great interest to these countries, was still highly protected. Trade liberalization should involve all the economic sectors, including agriculture. The concept of multifunctionality supported by Switzerland was a pretext to continue protecting the agriculture sector; Uruguay was opposed to it.

67. The representative of the European Union (EU) highlighted the close relationship between the EU and Switzerland on the one hand, and Liechtenstein on the other hand. The EU's bilateral trade with Switzerland amounted to €115 billion a year and to €1.4 billion a year with Liechtenstein. Liechtenstein had joined the EEA in 1995. The relations between the EU and Switzerland had been governed by a 1972 free-trade agreement, which was recently strengthened by seven sectoral agreements. Eventual EU membership was a strategic target for Switzerland. He sought information on further liberalization of telecommunications services by Switzerland; on the applicability of the widespread referendum practice (of Switzerland) to the WTO, to improve transparency; and on the orientation of the Swiss trade policies towards environment and sustainable development. He welcomed the Swiss and Liechtenstein support for the launching of a new round of multilateral trade negotiations with a broad agenda, and asked whether the two countries intended to follow the EU's lead in granting free market access to all imports from the least developed countries.

68. The representative of Hungary commended Switzerland for its economic reforms, which had started bearing fruit. He appreciated Switzerland's active support for the launching of a new round of multilateral trade negotiations with a broad agenda, Switzerland's view that multilateral and WTO-consistent regional and bilateral initiatives could be mutually supportive, and Switzerland's strategic objective of EU membership. Hungary's exports to Switzerland exceeded US\$700 million in 1999, with a sizeable but slowly decreasing Swiss surplus. Hungary ranked ninth among the destinations of Swiss tourists, and Swiss investments in the country exceeded US\$0.5 billion, with some 400 Swiss-Hungarian joint ventures. There were barriers to Hungarian exports of agricultural products to Switzerland. The representative asked about the fiscal reforms and their impact on the Swiss economic support policies, and about plans to deregulate the electrical and gas markets. He urged Switzerland to pursue its liberalization and structural reforms.

69. The representative of Argentina presented an overview of the sectoral structure of the Swiss economy. The agriculture sector was highly protected despite its small contribution to the economy; the Swiss Government support to agriculture was still high despite the reforms implemented in the sector. This had negatively affected other economic sectors such as tourism, and contributed to the high cost of living in Switzerland. The EU remained Switzerland's major trading partner. Noting that the value of pharmaceutical exports from Switzerland to Argentina was twice the value of all Argentinian exports to Switzerland, she urged Switzerland to open its agricultural market, and eliminate all subsidies and barriers affecting Argentinian agricultural exports.

70. The representative of Canada was encouraged by the success of Switzerland's economic reforms. Like Canada, Switzerland and Liechtenstein relied significantly on international trade for their economic well-being. He commended Switzerland and Liechtenstein for their commitment to, and their constructive role in, the rules-based multilateral trading system, and for efforts in the area of

competition policy and on protecting intellectual property rights. He urged Switzerland to extend trade liberalization to agriculture, to benefit both Switzerland itself and its trading partners. He looked forward to the dismantling of horizontal price cartels in Switzerland; further liberalization of telecommunications services and electrical and gas utilities; the conclusion of the Canada-EFTA free-trade agreement; and working with Switzerland and Liechtenstein in liberalizing trade and investment at both the multilateral and regional levels.

71. The representative of Chile said that discussions were under way to improve trade between his country and the EFTA member countries. In contrast with the other sectors, agriculture was subsidized and highly protected in Switzerland and Liechtenstein, despite its small contribution to the economies. This had made access to the Swiss and Liechtenstein markets difficult for foreign agricultural products. Liberalization of the agriculture sector would help to solve problems in other sectors such as tourism, which were negatively affected by high food prices. He urged Switzerland and Liechtenstein to improve market access to foreign exports of agricultural products.

72. The representative of Hong Kong, China described his country's bilateral trade relations with Switzerland and Liechtenstein (dominated by trade in watches, clocks, jewellery, precious stones, and banking and business services). He commended Switzerland for its significant role in the WTO, and Switzerland and Liechtenstein for their support for the launching of a new round of multilateral trade negotiations. However, Hong Kong, China, was adopting a more cautious approach when it came to the rules areas, whether existing or new. He looked forward to hearing any plans for further reduction of non-agricultural tariffs by Switzerland and Liechtenstein. He sought further information on the residency requirement for various forms of commercial presence and for supply of professional services. He expected that free-trade agreements in which Switzerland and Liechtenstein were involved would promote rather than undermine the multilateral trading system.

73. The representative of Australia acknowledged Switzerland and Liechtenstein's engagement in the WTO, and their liberalization efforts. He encouraged Switzerland to pursue these reforms, and Liechtenstein to further reform its financial services sector. It was, however, unfortunate that this commitment to liberalization did not extend to all sectors. While Australia acknowledged the agricultural reforms launched in 1996, further substantial reforms in the period ahead were vital for both countries and their trading partners. Australia sought fair, open and equitable access to markets for all commodities, substantial reductions in trade-distorting domestic support, and the elimination of export subsidies. This was no more than what Switzerland and Liechtenstein sought from other countries for their exports of goods and services. Although the contribution of the agriculture sector was small to both economies, its rates of protection were among the highest in the world, despite the recent reforms. This, along with distortionary policies in some other developed countries, continued to undermine viable agriculture in other countries through their impact on access to markets, competition from subsidized products, and stability of world market prices. Australia recognized that Switzerland had legitimate non-trade concerns, but did not consider that trade and production distorting measures were legitimate means for addressing these concerns. The WTO provided ample opportunity to address these concerns through Green Box measures under the Agricultural Agreement. He requested an explanation for Switzerland's use of these policies, and urged Switzerland and Liechtenstein to tackle agricultural reform as a matter of both national and international importance. He expressed serious concerns about the potential for distortion of trade and investment flows related to the large and expanding network of free-trade agreements in which Switzerland and Liechtenstein were involved. In this context, Australia considered that there could be no WTO-consistent preferential trade agreement that excluded major economic sectors, such as agriculture.

74. The representative of the United States noted that, with international trade playing an important part in Switzerland's economy and as the host country for the WTO, Switzerland played an

important role in furthering trade liberalization and strengthening the WTO. The United States and Switzerland maintained close trade and investment relations. She was pleased to see Switzerland's economic reform process showing signs of success. However, Switzerland still ranked top among OECD countries in government support for agriculture; despite reform steps taken by Switzerland, the sector remained highly insulated from foreign competition due to high tariff protection. In addition, administration of agricultural tariff quotas had led to numerous lines where the quota was not filled. The WTO negotiations on agriculture under the built-in agenda offered an opportunity to lower tariffs, to bind them, and to substantially reduce trade-distorting domestic supports. She strongly urged Switzerland to reform its agriculture sector and to support proposals in the talks to liberalize the sector. Likewise, the WTO built-in agenda discussions on services offered an opportunity to liberalize a broad range of service sectors. She strongly urged Switzerland to support proposals in the services talks to reduce current restrictions in branches where competition remained limited by monopolies held or exclusive rights exercised by public or private companies (e.g. passenger transport by bus, ports, and certain types of insurance).

75. The representative of Norway congratulated Switzerland for the positive performance of its economy as a result of its reforms. As a relatively small country with an open export-oriented economy, Norway, along with Switzerland and Liechtenstein, fully appreciated the importance of a strong rules-based multilateral trading system. Norway shared Switzerland and Liechtenstein's objectives regarding most areas ranging from agriculture, environment, and competition policy to the launching of a new round of multilateral trade negotiations with a broad agenda. In particular, the three countries had a common approach regarding non-trade concerns in agriculture. Their trade relations went beyond the WTO framework, and trade between the countries had grown and was still showing a positive trend. She commended Switzerland for its liberalization reforms in several sectors and its support for trade-related technical assistance to developing countries, and Liechtenstein for its liberalization reforms in financial services. She asked about further developments in Switzerland with regard to the tolerance of dominant positions and the lack of automatic sanctions against unlawful restraints. There was a need to clarify the relationship between environmental rules set at multilateral levels.

76. The representative of Thailand stated that Switzerland's recent economic performance resulted from its liberalization policy, especially in certain services subsectors. She encouraged the Swiss Government to continue to implement its policy, and to extend it to other sectors, especially agriculture, which was still highly protected and enjoyed a high level of government support. The "prise en charge" system, under which the allocation of tariff quotas of many agricultural products was contingent upon purchase of similar domestic products, was similar to a "local-content requirement" measure, which was inconsistent with the TRIMs Agreement. She sought further clarification on the system and asked about plans to bring it into conformity with the Agreement. Trade relations between Switzerland/Liechtenstein and Thailand were quite limited, although there was substantial room to increase their trade volume.

77. The representative of Japan mentioned that the economies of Japan, Switzerland and Liechtenstein were highly dependent on the production of high technology products, and that they had a lot of common points. He was encouraged by the active support given by both Switzerland and Liechtenstein to the multilateral trading system, including their approach to a broad-based round of multilateral trade negotiations. He welcomed their views and efforts for promoting capacity-building and other confidence-building measures to integrate developing countries into the global economy. The agricultural reform in Switzerland had multiple objectives. Preserving the multifunctional tasks of agriculture that went beyond the mere production of foodstuffs was not the only purpose that agriculture fulfilled. Japan commended Switzerland's efforts to promote agricultural reform in order to implement the WTO Agreement, adapt its agriculture to the changing international environment, and to fulfil the objective set by its public. The WTO rules should allow the different types of

agriculture that people had chosen to continue to exist while pursuing necessary market-oriented reforms. He sought assurance that bilateral and regional trade agreements in which Switzerland and Liechtenstein were involved would be WTO consistent; and sought an explanation on the rationale for the application of specific duties by the two countries.

78. The representative of India commended both Switzerland and Liechtenstein for their economic performance in recent years, and referred to the bilateral trade relations between his country and Switzerland. Switzerland's agriculture was highly protected despite its small contribution to the economy and the reforms implemented in recent years. Various policy instruments (tariff and non-tariff measures, including technical barriers to trade) were presented in the WTO Secretariat Report in this regard. Due to these factors, Indian agricultural exports to Switzerland were limited to coffee, vegetables, spices, and basmati rice; exports of marine products were also negligible even though the products were exported to other European countries in large quantities. He urged Switzerland to review its restrictions on agricultural imports, including on an autonomous basis, with a view to enhancing market access prospects for developing countries. He also requested the Swiss authorities to look expeditiously into regulations affecting movement of skilled labour, limitations on business visas, and restrictions on imports of certain products, including chemicals, medicines, cosmetic products, petroleum products, fertilizers, electrical appliances, measuring and weighing equipment, and heating installations.

79. The representative of the Czech Republic recalled the positive economic environment of Switzerland and Liechtenstein, and underlined their active role in the multilateral trading system. The Czech Republic supported the Swiss initiative concerning extension of additional protection for geographical indications relating to products other than wines and spirits. Like Switzerland and Liechtenstein, his country supported the launching of a new round of multilateral trade negotiations with a programme broad enough to satisfy concerns of all WTO Members. He expressed concerns about the high level of protection for the agriculture sector, which also enjoyed considerable government support and export subsidies. He encouraged the Swiss Government, which formulated agricultural policies for the customs union, to accelerate the reforms in the sector, while at the same time addressing legitimate non-trade concerns. Switzerland and Liechtenstein did not have specific legislation on customs valuation due to application of specific duties; he sought further clarification on interpretation of certain packaging rules, in decisions made by Customs.

80. The representative of the Republic of Korea said that the general trade policy direction followed by Switzerland and Liechtenstein in the past years had demonstrated a solid commitment to active participation in multilateral trade liberalization. Further liberalization of their trade and investment regimes was promoting the resurgent economic activity that was under way. His country joined Switzerland and Liechtenstein in their support for the launching of a round of multilateral trade negotiations that covered a broad area to meet challenges in the global economy and all Members' particular interests. He supported Switzerland's agricultural policies and the related objectives, and shared the understanding that agriculture played a multifunctional role. International disciplines needed to be flexible enough to allow for such a role to materialize and provide for the coexistence of various types of agriculture.

81. The representative of New Zealand acknowledged the progress made by Switzerland and Liechtenstein on the trade policy front in the past decade, in particular the substantial liberalization of their services sectors. This was highlighted through their active participation in the WTO negotiations on financial and telecommunications services. He sought information on plans for further liberalization. New Zealand valued Switzerland's active approach on trade and environment, and the cooperation between Switzerland and Liechtenstein in other areas, such as trade facilitation and customs valuation, where they had similar objectives. He urged Switzerland to continue to play an active role in the field of development, in particular technical cooperation, and to improve market

access for least developed countries. Any agricultural reforms in Switzerland were critical to the export prospects of New Zealand and other competitive agricultural producers. The bilateral balance of trade was hugely in Switzerland's favour due to the restrictions placed on imports of New Zealand's most competitive products. For example, Switzerland had no product-specific tariff quota access for butter and cheese; the basket dairy quota was filled largely through preferential access arrangements, with out-of-quota tariff rates of SwF 16,000 and SwF 4,000 per tonne respectively. In addition, the retention of specific duties did not ensure transparency to the trade regime, nor the transmission of external price signals to Swiss producers. In the light of the high level of protection of the agriculture sector, he expressed some doubts about Switzerland's claim that the State would play hardly any further role in the market, and urged Switzerland to give serious thought to further reforms which could make its claim a reality.

82. The representative of Malaysia congratulated Switzerland and Liechtenstein for their economic performance. Free-trade agreements had contributed to increases in their trade with other European countries, while trade with Asian nations had been small. She encouraged Switzerland and Liechtenstein to implement measures to increase their trade with emerging economies in Asia, including Malaysia. She hoped that the 2000 increase in trade with the region would continue, and Switzerland and Liechtenstein would invest more in Asia, particularly in high technology. She expressed concerns about tariff escalation in certain areas of interest to Malaysia, including cocoa products, rubber products and wood products, and hoped that this tariff structure would be dismantled.

83. The representative of Singapore noted that, like her country, Switzerland and Liechtenstein recognized the importance of progressive liberalization of trade to guarantee fair, sustainable, and better market access for goods and services. Such a policy was vital to the long-term viability of medium-sized trading nations like Singapore, with an export-oriented manufacturing sector and a significantly developed services sector. Engagement in multilateral and regional trade agreements would ensure market access on a reciprocal basis. Like Singapore, Switzerland saw free-trade agreements as a complement to multilateral negotiations; free-trade agreements were to fill gaps where no multilateral framework existed. Singapore and Switzerland shared an interest in areas such as manufacturing of high-technology goods, and financial services.

VI. REPLIES BY THE REPRESENTATIVES OF SWITZERLAND AND LIECHTENSTEIN, AND ADDITIONAL COMMENTS

84. The delegations of Switzerland and Liechtenstein provided written responses to advance written questions and to questions raised during the first day of the meeting. Three topics had emerged from these questions: (1) economic environment; (2) trade policies by measure; and (3) sectoral policies. The written answers provided by both delegations, as well as oral comments by the representatives of Switzerland and Liechtenstein, are reproduced in Annexes II and III (in document WT/TPR/M/77/Add.1).

(1) Economic environment

85. The representatives of Switzerland and Liechtenstein presented their delegations' responses to questions related to the first topic (economic environment). The Chairperson invited the discussant to comment on these replies, and then opened the floor for comments from other participants.

86. The discussant thanked the representatives of Switzerland and Liechtenstein for their responses. He appreciated the clarification provided by Switzerland on consultation with "civil society". He was struck by the difference between the areas of interest raised by participants during this Review of Switzerland and during its previous Review in 1996. He enquired about the microeconomic foundations (e.g. the business environment, including investment procedures) of the macroeconomic framework, the solution to the need for skilled labour, and policy challenges that resulted from the aging population of both Switzerland and Liechtenstein. He expressed concerns about the increasing number of free-trade agreements in which "big" countries were involved, and about the exclusionary effects the agreements might have on developing countries, which did not have the capacities (or attractiveness) to conclude such arrangements. He welcomed the assurance that any such agreements in which Switzerland and Liechtenstein might be involved would be WTO consistent.

87. The representative of the EU thanked the representative of Switzerland for his comprehensive presentation on consultation with "civil society" and on Switzerland's perspective on problems related to its integration into the EU. The presentation contributed to a better understanding of the policy framework in Switzerland. The package of seven bilateral agreements concluded between the EU and Switzerland (already ratified by Switzerland) had been ratified by Italy and Austria; the ratification procedures were under way in the other EU member countries.

88. The representative of Switzerland replied that the concerns about free-trade agreements (their increasing number and the issue of coherence) should be addressed to all WTO Members. The relationship between free-trade agreements deserved reflection at the multilateral level. In a global economy, countries cooperated where they could. He provided examples of shifts in production patterns that reflected shifts in investment. The situation of the least developed countries deserved careful consideration; it should be distinguished from the situation in the other countries.

89. Before the 1990 economic crisis, many Swiss citizens had lost their dynamism as entrepreneurs. This situation had changed. The Government had contributed to the change by developing entrepreneurship in the Swiss universities, and by promoting the relationship between universities, research centres, and the private sector; local banks had also provided risk capital. Cooperation between interested persons had borne fruit and there were many young entrepreneurs in Switzerland.

90. Under the previous regime on access to the Swiss labour market, there had been many foreign workers without, or with low, professional qualifications living in Switzerland, along with their families; there had been difficulties in assimilating people from different cultures, including different religions. In recent years, work permits for skilled workers were not only limited but trained workers had been offered better conditions in countries other than Switzerland. These factors explained the difficulties in recruiting skilled labour in Switzerland.

91. The representative of Liechtenstein said that the well-developed infrastructure, the high level of education of the population, simplified administrative procedures, the well-developed financial system, and the quick adaptation of the economy to new developments had created an environment conducive to investment in Liechtenstein. Liechtenstein had a specific policy to attract investment. However, shortages of skilled labour was an issue.

(2) Trade policies by measure

92. The representatives of Switzerland and Liechtenstein presented the replies of their delegations to questions raised under the second theme.

93. On the application of specific duties, the discussant appreciated Switzerland's approach based on the opinion of local industries; he sought further clarification on the issue. On rules of origin, he requested further information on the pan-European cumulation system. Switzerland had aligned the regulations governing purchases by local governments on the rules of the Plurilateral Agreement on Government Procurement (GPA). He asked whether Switzerland intended to incorporate the changes into its commitments under the Agreement. He encouraged Switzerland and Liechtenstein to improve market access for the least developed countries as they had promised.

94. The representative of the EU sought further clarification on the participation by foreign companies in public procurement in Switzerland (details on their share in the total) and on changes introduced in this regard.

95. The representative of India enquired about Switzerland's intention regarding its tariff lines for which applied rates were higher than the bound duties.

96. The representative of Switzerland indicated that his country had taken new commitments with regard to local authorities in the context of its bilateral agreement with the EU. The commitment was that Switzerland would add its local authorities to its list in the GPA; in exchange the EU would withdraw its reservation in this regard. He referred to difficulties relating to the liberalization of public procurement and stressed the need for reciprocity. The available statistics under-stated the level of public purchases from abroad because foreign-made products purchased in Switzerland were not considered as foreign products for statistical purposes when they were bought from a foreign supplier with a commercial presence in Switzerland. A report on government procurement in Switzerland would be available after 15 January 2001: it would cover further liberalization in the area, including the lowering of the thresholds; the simplification of the legal framework; and the harmonization and mutual recognition of regimes. As mentioned in the written replies by the Swiss delegation, the reason for the high applied MFN duty on three items was a copy error dating from the transfer of the Uruguay Round schedule into the revised schedule according to the second HS revision; the impact on trade was insignificant. These mistakes were likely to be corrected by mid-2001 in the framework of the relevant WTO and national procedures.

(3) Sectoral policies

97. The representatives of Switzerland and Liechtenstein presented written replies to questions raised under the third theme.

98. The discussant was cautiously optimistic and confident that despite important differences, WTO Members should be able to find a common denominator, the most important being the fact that a serious effort had been undertaken to reform the agriculture sector and to bring it closer to market principles. It had been impossible, ten years earlier, to refer to the liberalization of the sector as one of the underlying principles behind the agricultural policy; this had changed since 1999. The difficulties arose when the impact of the reforms in terms of reduction of border protection and trade distorting measures was analysed. Many WTO Members could see no substantial changes with replacement of certain systems with others, since the policy framework was still the same; the impact of the reforms was limited in terms of market access, government support, and subsidies. A solution was needed to address the dilemma of liberalizing the sector in line with political sensitivities. The WTO Secretariat might help by focusing more on aspects relating to market access (actual increases in market access related to the reforms). He enquired about future steps for the liberalization of the sector. Finally, on services, he expressed appreciation for the ongoing liberalization in a number of subsectors, and encouraged Switzerland and Liechtenstein to deepen the reforms and initiate them in areas in which they had not yet started.

99. The representative of Argentina said that she would convey to her authorities the positive message from the Swiss delegation with regard to the improvement of market access to Argentinian products. She took note that Switzerland would unilaterally implement further liberalization reforms in agriculture. She had the same interpretation of the "prise en charge" system as had other participants; any further comments from Switzerland on the system would be welcome. If there were any remaining doubts regarding the interpretation of the system, Argentina would refer to Switzerland.

100. The representative of the United States appreciated the comments made by Switzerland and Liechtenstein. She requested more information on the liberalization of the agriculture and services sectors.

101. The representative of Chile appreciated the liberalization efforts undertaken by Switzerland and Liechtenstein. Noting that the reforms in the agriculture sector remained limited, he sought information on future steps in this regard. He sought clarification on possible provisions on the use of fish meal in fodder, and on the meaning of "recent measures" in the replies provided by the Swiss delegation.

102. The representative of Australia joined other members in thanking the delegations of Switzerland and Liechtenstein for their detailed responses. The replies would be carefully reviewed. There would be opportunities to discuss specific issues in other forums.

103. The representative of Uruguay thanked Switzerland and Liechtenstein for their replies. He noted that there were considerable margins for further reforms in agriculture, especially to improve market access.

104. The representative of Switzerland replied that further liberalization measures in agriculture would be proposed in 2001, the relevant bill would be drafted in 2002 and the legislation would enter into force in 2004; and a new framework for agricultural policies would be set up by the end of the decade. This timetable was contingent upon the implementation of the package of bilateral agreements (including on agriculture) between Switzerland and the EU, and upon developments on

the multilateral front. In all regional agreements concluded by Switzerland, there were agricultural concessions. Regarding fish meal, because of the recent crises, certain measures had been taken and others were under consideration; the measures would have an impact on animal meal made of meat, but not fish (meal made of meat was to be forbidden from 1 January 2001, whilst fish meal would continue to be allowed for animals other than "ruminants"). There had been no special regulations on fish meal. He concluded by thanking all participants and acknowledging the legitimacy of the comments on the agriculture sector. The discussions were frank; it had been a learning process. Switzerland would contribute to developing dialogue within the WTO.

105. The representative of Liechtenstein stated that his country's first Trade Policy Review process had been a positive experience, and thanked all those involved in the exercise.

VII. CONCLUDING REMARKS BY THE CHAIRPERSON

106. We have had a comprehensive, open and informative discussion of the trade policies and practices of Switzerland and Liechtenstein. Members were encouraged by the good performance of the Swiss and Liechtenstein economies since 1997. They attributed this performance largely to sound macroeconomic policies and structural reforms, which have contributed to a better allocation of resources and further exploitation of the comparative advantages of both Switzerland and Liechtenstein. Noting that growth, particularly in its early stages, had been export led, Members pointed to the important role of the multilateral system in keeping markets open to Swiss and Liechtenstein products. They urged Switzerland and Liechtenstein to continue the reforms, mainly in the highly protected sectors (agriculture, and electrical and gas utilities in particular), in order to reduce costs and market rigidities to the benefit of their economies and of the multilateral trading system.

107. Members commended Switzerland and Liechtenstein for their active participation in the multilateral trading system, with several welcoming their support for the launching of a new round of negotiations with a broad agenda; they appreciated the continued role played by Switzerland as the host country for the WTO. Pointing to the increasing participation of Switzerland and Liechtenstein in preferential trade agreements, Members sought assurance that such agreements would be WTO-consistent. The functioning of the Swiss-Liechtenstein customs union, including the Market Control and Surveillance Mechanism (MCSM) established by Liechtenstein following its EEA membership, also attracted interest.

108. Members noted that the tariff consisted exclusively of specific duties, with high-ceiling bindings in agriculture and clothing. They asked about prospects for a simplification of the tariff, including a move to *ad valorem* rates. Questions were also raised about customs valuation practices, particularly for internal taxation purposes. Most Members posed questions about standards and technical regulations, including labelling, sanitary and phytosanitary requirements, and on the links between environmental protection and international competitiveness of locally-produced goods. The need for greater market access to developing countries and LDCs was stressed. In the area of competition policy, some concern was expressed about the tolerance of dominant positions and about the lack of automatic sanctions against unlawful restraints.

109. On sectoral policies, Members recognized the liberalization initiatives taken by Switzerland and Liechtenstein under the "Agricultural Policy 2002". However, many Members were concerned about the high level of tariff protection and government support (including export subsidies) for agriculture, which they deemed disproportionate to the share of the sector in GDP and employment. They suggested that legitimate non-trade concerns in agriculture be addressed through measures that would not unduly distort production and trade.

110. Members also sought further clarification on a number of issues, including:

- pursuit of macroeconomic reforms;
- lack of economic data for Liechtenstein;
- regulations on foreign direct investment, including residency requirements;
- tariff quotas on agricultural imports and their administration through non-automatic licensing, including the "Prise en charge" system;
- non-use of contingency trade remedies;

- protection of intellectual property, including geographical indications;
- government procurement, including regulations on threshold values, and on purchases by cantons and municipalities;
- further structural reforms in the services sector, including professional services; and
- consultation with "civil society".

111. Members appreciated the comprehensive responses provided by the Swiss and Liechtenstein delegations to most questions raised during the meeting.

112. In conclusion, it is my feeling that this joint Review has allowed us much better understanding of the customs union between Switzerland and Liechtenstein. We have come, I think, to a deeper appreciation of Switzerland and Liechtenstein's trade policies and practices, and the environment in which they are framed and conducted. The large number of questions and comments reflected the widespread interest of Members in this regard. Members were encouraged by the ongoing economic performance in both countries. The active participation of Switzerland and Liechtenstein in the WTO seems to me to be central to their trade liberalization efforts. Members encouraged Switzerland and Liechtenstein to maintain the momentum of the reforms, even on an unilateral basis. They urged both countries to ensure that their bilateral and regional arrangements be WTO-consistent.
