

## **IV. TRADE POLICIES BY SECTOR**

### **(1) INTRODUCTION**

1. Two sectors play a major role in the Swiss and Liechtenstein economies: services, at the core of which are financial services; and manufacturing, highly capital-intensive and producing high-technology goods. In Switzerland, the services sector accounts for nearly two thirds of real GDP and about three fourths of total employment. Switzerland is a net exporter of services. The sector contributes to one half of total employment in Liechtenstein. Both Switzerland and Liechtenstein have substantially liberalized their services sector in recent years. Their commitments under the GATS largely reflect the current state of competition in the sector, albeit limited in certain branches (e.g. fire, natural damage, and workplace insurance; rail and air transport; and postal services, mainly in the case of Switzerland) by monopolies or exclusive rights held by public or private companies. Switzerland and Liechtenstein have maintained MFN exemptions under Article II of the GATS for various considerations.

2. The manufacturing sector is export-oriented: it accounts for around 96% of the total value of merchandise exports from Switzerland and almost 100% in the case of Liechtenstein. The sector accounts for about one third of real GDP and 18% of total employment in Switzerland, and 46% of total employment in Liechtenstein.<sup>1</sup> Apart from incentives schemes, which are largely oriented towards the processing of agricultural products, Switzerland and Liechtenstein do not have policies specific to manufacturing. With the exception of products such as chemicals, pressure vessels, invitro-diagnostica, civil explosives, "recreational crafts" and cable cars, standards and technical regulations that had limited imports of manufactured goods have been substantially harmonized with those of the EC. Nevertheless, non-tariff measures remain the major barrier to imports of motor vehicles (e.g. limitation of the number of motor vehicles imported by non-commercial importers to one per make per year), although these goods are not produced on a commercial scale in the customs union. Following Liechtenstein's membership in the EEA, such barriers to its trade with the other EEA members have been eliminated. With an average AVE of 2.3% on non-agricultural products (Chapter III(2)(ii)(b), customs tariffs on these products are generally lower than on other imports.

3. Agriculture accounts for about 2% of real GDP, 4% of total employment and less than 4% of the value of merchandise exports from Switzerland, and 1% of total employment in Liechtenstein. Switzerland formulates the agricultural policy of the customs union. Agriculture is the most protected sector. The simple average AVE of MFN tariffs on agricultural imports is 33.5% (well above the overall average of 8.9%), with a maximum of 678%. Imports of agricultural products are also subject to licensing for health, sanitary, phytosanitary, compulsory-reserve stock, and tariff-quota management considerations, and to specified labelling requirements. The "prise en charge" system, under which the allocation of tariff quota is contingent upon local purchase, still applies to imports of some agricultural products. Exports of dairy products, cattle, horses, fruit, potatoes, and specified processed agricultural products are subsidized. According to the Liechtenstein authorities, a few Liechtenstein companies may participate in the export subsidies system for processed agricultural products.

4. The reforms launched in 1993 have reduced the government involvement in the agricultural sector. As a consequence of the reforms, public contributions to farm income (through direct payments) are mostly based on environmental considerations. However, the reforms have not substantially reduced government support to agriculture, which still represents nearly three fourths of gross farm receipts. The impact of the reforms on prices has been limited by: the lack of competition

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<sup>1</sup> More precisely, the figure corresponds to the share of the secondary sector in total employment in Liechtenstein.

in branches such as sugar and edible oils; the upholding of price-based schemes such as the threshold price, the indicative value, and the Price Compensation Scheme, and the introduction of target prices for dairy products despite the ongoing dismantling of the guaranteed price system; and the replacement of marketing boards with institutions commissioned by the State. Domestic prices of agricultural products have remained high by international comparison.

5. High prices of agricultural products (mainly food products), together with high energy prices resulting from state or private monopolies or exclusive rights over the supply of gas and electricity, have delayed the normal development of branches such as tourism. The partial liberalization of the Swiss energy sector is being scheduled.

## **(2) AGRICULTURE AND RELATED ACTIVITIES**

### **(i) Main features**

6. Identical climate, relief, soil, topography, and structure of production, together with a common policy formulated by Switzerland for the customs union, have enhanced the similarities between the Liechtenstein and Swiss agriculture sectors, which are dominated by small farms. Indeed, the overall average size of farms is about 9 ha in Liechtenstein and around 15 ha in Switzerland. The prices of agricultural products are broadly the same in Switzerland and Liechtenstein, as are the main suppliers of these goods. There are comparable professional organizations in Liechtenstein and Switzerland.

7. Around two thirds of the Swiss land area of 41,285 km<sup>2</sup> are suitable for agriculture, including forestry. Cultivated land represents about one third of the total, i.e. half of the surface area suitable for agriculture, of which mountainous areas account for slightly above one third. About three fifths of the surface area suitable for agriculture are appropriate for animal grazing. Agriculture accounts for about 2% of real GDP and employs some 4% of the active population, down from around 10% in 1960.<sup>2</sup> The economic crisis of the 1990s and the related upsurge of unemployment have helped to contain massive migration from rural areas observed up to the end of the 1980s.

8. In Liechtenstein, around 75% of the total land area of 160 km<sup>2</sup> is used for agriculture (including forestry)<sup>3</sup>, with mountain pasture accounting for some 16%, cultivated land 24% and forestry 35% of the total<sup>4</sup>; the area used for animal grazing (including mountain areas) also accounts for around one quarter. The reduction of the total number of farms over some years (through mergers and liquidations) has led to an increase in the number of farms of over 20 ha, and thus to the increase in the average size. Some 80% of the farmland is under lease.<sup>5</sup> Agriculture employs around 1% (1.3% in 1998) of the active workforce.

9. The major crops of Switzerland and Liechtenstein include cereals (wheat, maize, barley, oats), tubers (particularly potatoes), oilseeds, and fruit (e.g. apples, pears, plums, grapes). Livestock comprises cattle, pigs, horses, sheep, goats, and poultry; and animal products include meat, milk, cheese, and eggs (Table IV.1). Sugar beet is also grown in Switzerland. Agricultural exports

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<sup>2</sup> The cantons of Appenzell Innerrhoden, Obwalden, Lucern and Uri rank top in terms of the ratio of agricultural employment to total active population, while Basel Stadt, Geneva, and Ticino have the lowest ratios.

<sup>3</sup> The remainder (25% of the total) comprises unproductive land and built-up areas.

<sup>4</sup> Office of National Economy (1999).

<sup>5</sup> Press and Information Office of the Principality of Liechtenstein (1998).

comprise, *inter alia*, animals and animal products (including meat and cheese), and wine, mostly from Switzerland. Forestry and fishing are not developed.<sup>6</sup>

**Table IV.1**  
**Final production per agricultural branch, Switzerland, 1991-99**  
(Sw F million)

Branch	Value						
	1991	1993	1995	1996	1997	1998 <sup>a</sup>	1999 <sup>a</sup>
Vegetable production							
Cereals	844	824	800	796	639	659	508
Potatoes	212	228	216	208	183	163	155
Sugar beet	133	147	129	167	162	155	137
Vegetables	390	373	418	424	467	422	403
Fruits	304	337	318	363	303	373	307
Wine	618	515	562	610	489	510	529
Other	216	169	152	128	136	144	114
Total of vegetable production	2,717	2,593	2,595	2,696	2,379	2,426	2,153
Animal production							
Milk	3,256	3385	3,154	2,842	2,806	2,807	2,581
Beef and veal	1,603	1560	1,325	952	955	948	998
Pig-meat	1,636	1345	1,099	1,152	1,202	1,075	961
Poultry	384	385	360	364	364	355	343
Other	190	177	207	134	141	164	144
Total of animal production	7,339	6,852	6,145	5,444	5,468	5,349	5,027
Salaries paid	52	57	69	75	84	88	90
Total final production	10,108	9,502	8,809	8,215	7,931	7,862	7,270

a Provisional figures.

Source: Information provided by the Swiss Authorities.

10. Switzerland (and through it Liechtenstein) ranks top among the OECD countries in terms of government support to agriculture. In 1999, it provided aid to farmers equivalent to 73% of gross receipts from agricultural products (the share has remained broadly unchanged since the mid 1980s); this is well above the average of 40% for OECD countries.<sup>7</sup> The Swiss Government budget for agriculture is some Sw F 4 billion in 2000 (a 4.5% reduction with respect to 1999), and represented 8.5% of the total, down from 9.1% in 1999: 57.4% of the budget for agriculture is for direct payments; 28% for promotion of sales; 6.6% for improvement of production bases; and the remainder for other purposes. In 2000, the budget of the Government of Liechtenstein for agriculture is some Sw F 13 million (1.8% of the total public budget up from 1.6% in 1999). The 2000 budget for agriculture is being spent on: direct payments (68.8%); structural improvement (13.4%); support for milk production (9.7%); and other purposes (8%).

11. Costs related to strict environmental protection requirements, high cultivation costs of the high proportion of hill and mountain regions, sub-optimal use of farm equipment and production inputs owing to the small size of the holdings, and high input costs – local supplies of the inputs are highly protected and wages are high by international comparison – has contributed to high domestic

<sup>6</sup> Bans on destruction and compulsory replanting of trees to replace felling have conserved the overall forest area.

<sup>7</sup> OECD (1999).

prices of agricultural products supported by high tariff protection.<sup>8</sup> The importance of cross-border purchases of mainly food products (e.g. meat, alcoholic beverages, dairy products, and vegetable oils) reflects the difference in price between the customs territory and its neighbouring countries.

12. The agriculture sector is adjusting to the new environment created by the reforms launched in 1993. Farm holdings have accordingly merged or diversified their production. The reforms have stabilized agricultural incomes, albeit at a relatively lower level than before. Self-sufficiency has so far been met for only few products (Table IV.2). In 1998, environment-friendly requirements (ecological production methods) were already met by a large number of holdings (e.g. for some 84% of the land area suitable for agriculture in Switzerland and 89% in Liechtenstein). The use of ecological requirements as the basic eligibility criterion for direct payments may further increase production costs if the related effects are not fully offset by the payments. Moreover, the impact of the reforms on domestic prices has been limited by the lack of competition in certain agriculture branches, such as sugar and edible oils (section (iii)).

**Table IV.2**  
**Self-sufficiency in basic food products, Switzerland, 1991-98**  
(Per cent)

Product	1991	1992	1993	1994	1995	1996	1997	1998
<b>In digestible calories:</b>								
Cereals for bread	126	115	115	120	134	138	108	120
Cereals for fodder	62	61	69	70	75	74	72	73
Total of cereals	65	63	68	69	68	71	67	69
Edible potatoes	107	95	99	92	99	99	94	100
Sugar	44	44	49	40	42	64	62	60
Fat and vegetable oils	24	22	24	15	20	19	23	21
Fruits	60	78	78	69	71	79	71	86
Vegetables	53	56	57	52	55	60	56	54
Milk for consumption	97	97	97	97	97	97	97	97
Butter	91	88	86	90	93	89	89	92
Cheese	137	135	134	134	129	128	129	126
Milk and dairy products	110	108	108	109	110	109	110	110
Veal	99	98	97	97	97	99	99	98
Beef	94	94	93	89	92	105	98	92
Pig-meat	99	98	98	98	98	89	90	93
Sheep	44	48	46	45	46	39	42	43
Poultry	46	49	48	48	51	37	41	39
Total of meat	80	80	79	77	79	72	71	71
Eggs and products thereof	44	45	46	46	45	48	49	49
<b>In digestible energy:</b>								
Vegetable products	42	43	45	41	42	47	44	47
Animal products, gross	97	96	95	94	96	95	95	95
Total products, gross	62	62	63	59	61	64	62	64
Total products, net	58	59	60	56	57	60	54	56
<b>In value:</b>								
Total of food products	72	72	73	71	71	69	66	65

Source: Information provided by the Swiss Authorities.

<sup>8</sup> According to OECD (1999), domestic prices of agricultural products in Switzerland are two and a half as high as world prices and about double the price level in the EU.

13. In 1999, Switzerland and the EU concluded a bilateral agreement on trade in agricultural products. Subject to ratification by the EU members, this will provide for reciprocal preferential treatment (including tariff concessions) on, *inter alia*, cheese and some other dairy products, fruit and vegetables, and meat specialities (Chapter II(5)(ii)). The agreement will not apply to Liechtenstein; its extension to Liechtenstein is envisaged by way of an additional protocol between Switzerland, the EU, and Liechtenstein.

**(ii) Policy objectives and instruments**

14. Coincident with internal economic and environmental constraints, and with the end of the Cold War and the related risk of supply shortages, allegedly for food self-sufficiency policies, the Uruguay Round offered Switzerland and Liechtenstein an opportunity to redirect their agricultural policy.<sup>9</sup> The process of farm policy reorientation comprises two steps. The first phase, promulgated in the Swiss Federal Council's Seventh Report on Agriculture in 1992, and further strengthened through the 1995 Uruguay Round implementing legislation, emphasized the gradual reorientation of farm assistance from price measures towards direct payments. The focus was on price reduction, separation of price policy from income policy, direct payments (partly based on ecological criteria) to compensate for income reduction, and reorganization of border protection.<sup>10</sup>

15. The subsequent "Agricultural Policy 2002" (AP 2002) initiative, released for political consultation in October 1995 and adopted by the Swiss Parliament in April 1998, is aimed at, *inter alia*, enhancing the sector's competitiveness and further promoting "environmental sustainability", through structural improvements, cost cutting, promotion of efficient structures, liberalization of markets, and state assistance predominantly through direct payments. The implementation of the AP 2002 (effective since 1999) required the amendment of the Swiss Federal Constitution in June 1996 and the introduction, in April 1998, of a new Federal Law on Agriculture, which came into force on 1 January 1999.<sup>11</sup> Both the Constitution (Article 104) and the Law (Article 1) provide the general framework for the implementation of the AP 2002 by confirming its objectives, i.e. sustainable and market-oriented agricultural production that should contribute substantially to a safe supply of food, the preservation of natural resources, the maintenance of the rural landscape, and a decentralized use of land.

16. Under the AP 2002, the direct-payment system has been restructured: ecological production conditions were introduced as eligibility criteria, and the general direct payment and the payment for integrated production were merged into area payments as from 1999 (Table IV.3). In addition to programme specific criteria<sup>12</sup>, the production methods used by farmers eligible for direct payments must comply with "integrated farming" techniques, i.e. specified basic environmental standards and animal friendly conditions.<sup>13</sup> The basic integrated farming practices are not currently required for summer pasturing, non-silage premiums, and price supplement for milk. The direct payments are cumulative. Direct payments provided by the Liechtenstein Government amounted to some Sw F 7.8 million in 1998 and Sw F 8.6 million in 1999, of which ecological payments represented

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<sup>9</sup> The food self-sufficiency objective had supported the policy of independence and neutrality of both Switzerland and Liechtenstein.

<sup>10</sup> See WTO (1996) for details.

<sup>11</sup> Specified provisions on dairy products came into force on 1 May 1999 and those on the liberalization of the wheat market are scheduled for 1 January 2001.

<sup>12</sup> Direct payments are generally based on surface area or number of animals, ecological and production conditions, and social considerations.

<sup>13</sup> Articles 70 and 71 of the Federal Law on Agriculture. The prerequisite requirements (applicable to all programmes) will be the only eligibility criteria after the transition period of five years, i.e. from 2004.

around 45% in 1998 and 42% in 1999; and complementary direct payments were around 39% in 1998 and 44% in 1999.

Table IV.3  
Outlays for direct payments, Switzerland, 1998-99

Type of payment	1998		1999 <sup>d</sup>		Change in Sw F price 1998-99 <sup>d</sup>
	Sw F million	US\$ million	Sw F million	US\$ million	%
<b>Complementary direct payments<sup>a</sup></b>	<b>825.0</b>	<b>569.1</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
of which:					
Base farm payment	151.7	104.6	n.a.	n.a.	n.a.
Supplementary farm payments	135.7	93.6	n.a.	n.a.	n.a.
Base area payment	371.0	255.9	n.a.	n.a.	n.a.
Supplementary area payment for meadows	166.6	114.9	n.a.	n.a.	n.a.
<b>Payments for farming in difficult production locations (till 1998)</b>	<b>354.1</b>	<b>244.3</b>	<b>1,845.9</b>	<b>1,228.3</b>	<b>n.a.</b>
<b>General direct payments (since 1999)</b>					
of which:					
Area payments <sup>b</sup>	n.a.	n.a.	1,234.0	821.1	n.a.
Holding of livestock in mountainous areas <sup>a</sup>	259.1	178.7	n.a.	n.a.	n.a.
Holding of livestock under difficult conditions <sup>b</sup>	n.a.	n.a.	254.3	169.2	n.a.
Holding of roughage eating animals <sup>b</sup>	n.a.	n.a.	252.1	167.8	n.a.
Farming on steep slopes	95.0	65.5	96.2	64.0	1.3
Wine cultivation on steep slopes <sup>b</sup>	n.a.	n.a.	9.3	6.2	n.a.
<b>Ecological payments</b>	<b>811.7</b>	<b>559.9</b>	<b>344.0</b>	<b>228.9</b>	<b>-57.6</b>
of which:					
Ecological compensation	115.2	79.5	127.2	84.7	100.4
Integrated production <sup>a</sup>	460.0	317.3	n.a.	n.a.	n.a.
Organic farming	44.1	30.4	16.7	11.1	-62.1
Coralling of animals in the open air <sup>a</sup>	56.4	38.9	n.a.	n.a.	n.a.
Regularly keeping animals outdoors <sup>b</sup>	n.a.	n.a.	63.3	42.1	n.a.
Animal welfare through housing systems	12.6	8.7	23.0	15.3	82.5
Extensive cereal and rapeseed farming	45.7	31.5	34.9	23.2	-23.6
Extensive farming on dryland and litter areas	10.8	7.5	11.0	7.3	1.9
Summer pasturing	66.9	46.1	67.6	45.0	-1.0
Water preservation <sup>b</sup>			0.3	0.2	n.a.
<b>Production directing payments</b>	<b>381.4</b>	<b>262.8</b>	<b>250.6</b>	<b>166.8</b>	<b>- 34.3</b>
of which					
Crop cultivation <sup>b</sup>	n.a.	n.a.	61.9	41.2	n.a.
Acreage premiums for coarse grains <sup>a</sup>	53.0	36.6	n.a.	n.a.	n.a.
Green fallow <sup>a</sup>	13.3	9.2	n.a.	n.a.	n.a.
Production of renewable raw material	5.4	3.7	3.4	2.3	-37.0
Holding of cows whose milk is not marketed <sup>a</sup>	92.0	63.5	n.a.	n.a.	n.a.
Non-silage premium	64.4	44.1	25.5	17.0	-60.2
Price supplement for milk for cheese production	153.3	105.7	159.8	106.3	4.2
<b>Social payments<sup>c</sup></b>	<b>141.1</b>	<b>97.3</b>	<b>141.7</b>	<b>94.3</b>	<b>0.4</b>
of which:					
Child allowance for farmers	114.4	78.9	118.5	78.9	3.6
Child and household allowances for farm workers	26.7	18.4	23.2	15.4	-13.1
<b>Total</b>	<b>2,513.3</b>	<b>1,733.4</b>	<b>2,582.2</b>	<b>1,716.3</b>	<b>2.7</b>

n.a. Not applicable.

<sup>a</sup> This measure was discontinued in 1999.

<sup>b</sup> This measure was introduced in 1999.

<sup>c</sup> Excluding administrative costs.

<sup>d</sup> Provisional.

Source: Federal Office for Agriculture.

17. Financial contributions and concessionary credits are also granted by the Swiss Government to farmers for various purposes.<sup>14</sup> For instance, concessionary credits (interest-free loans of a maximum duration of 20 years) may be granted by the Government to farmers who improve conditions for animal welfare. Financial contributions are subject to the granting of assistance by the regional authorities. (e.g. authorities of the canton where the farm is located). The contributions may be up to 40%, and even 50% in exceptional cases (in mountainous areas), of the total cost of real estate. Moreover, the Swiss Government finances research stations (Chapter III(4)(ii)), training and education of agricultural staff. The Liechtenstein Government provides financial contributions for soil amelioration and alpine buildings, and subsidizes (through interest-free credits, for example) construction and renovation of farms.

18. The Price Compensation Scheme is maintained for agri-industries. The scheme is aimed at compensating for the cost disadvantages (high domestic prices – by international comparison – of locally produced raw materials used as inputs by domestic agri-industries) resulting from agricultural policy measures. It consists of sufficient tariff protection (on a continual basis) for locally processed agricultural products and refunds of customs duties paid on raw materials used in the production of processed agricultural goods for exports. On imports from countries eligible for preferential tariff treatment under bilateral trade agreements covering processed agricultural products, the scheme consists in periodical determination of the customs duties on specified processed agricultural products (on the basis of a standard recipe for each group of products within a tariff heading). This preferential component of the duty, called the "agricultural element", is designed to offset the difference between the domestic and world prices (generally the EU's) of the agricultural raw materials incorporated in the production of the processed goods. The MFN customs duty on the processed products comprises this agricultural element (the preferential tariff) and an industrial element fixed by the Swiss Federal Council for the customs territory. The tariff bound at the WTO applies if the calculated duty (the sum of the agricultural and industrial elements) is higher. The list of processed agricultural products eligible for this type of tariff protection comprises: yoghurt containing cocoa (HS chapter 4); frozen sweet corn (HS chapter 7); sugar confectionery (HS chapter 17); chocolate and other food preparations containing cocoa (HS chapter 18); pastrycooks' products and preparations of cereals, flour, starch, or milk (HS chapter 19); other food preparations (HS chapter 21); and mannitol (HS chapter 29). The raw materials are those used as inputs in the production of these goods; raw materials that cannot be produced in the customs territory, such as rice, coffee and cocoa, are excluded.

19. For exports, the scheme consists in refunds of customs duties paid on raw materials used as inputs. The refund is calculated on the basis of the difference between the domestic and world prices of the raw materials actually used for the production of the processed agricultural goods.<sup>15</sup> The eligible raw materials are those used in the production of processed agricultural goods of HS chapters 15 to 22. The following products are excluded: mixtures of raw materials; raw materials filled in retail packings; raw materials processed into unusual foodstuffs; and imported mixtures not falling under HS chapters 4 and 11. There is no exhaustive list of processed agricultural products eligible for this component of the scheme.

20. Switzerland and Liechtenstein subsidize exports of dairy products, cattle, horses, fruit, potatoes, and certain processed agricultural products (section (iii)). According to the Liechtenstein authorities, few Liechtenstein companies benefit from the export subsidy scheme. Customs duties are refunded on specified goods, including agricultural products, depending on their final use, and under the Processing Traffic Scheme (Chapter III(2)(ii)(e)).

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<sup>14</sup> Federal Law on Agriculture, Articles 78 to 112.

<sup>15</sup> The refunds are calculated on the quantities of raw materials actually used in the manufacture of the goods, while the agricultural element of the customs duties on imports is fixed according to a standard recipe.

21. On average, direct payments account for about one quarter of gross agricultural earnings. In 1998, the share of direct payments in gross agricultural earnings by farms of about 20 ha ranged between 14% and 22% in the plains and between 22% and 50% in the mountain areas of Switzerland.<sup>16</sup> The total financial assistance by the Swiss Confederation and the cantons amounted to Sw F 104 million; concessionary credits of Sw F 195 million were also granted to rural projects and Sw F 20 million to the cantons, for similar purposes. Total domestic support granted by Switzerland and Liechtenstein has been declining since 1995 due to reductions of current total aggregate measurement of support (AMS); nevertheless, the share of green-box support increased from some 38% of total domestic support in 1995 to nearly 50% in 1998 (Table IV.4). The total budget for government support for agriculture (i.e. around 90% of the total public budget for the sector) amounts to some Sw F 14 billion for the period 2000-03; the annual amounts are to be reduced gradually (Table IV.5). In particular, government support for trade promotion, exportation, milk, meat, and vegetable production must be reduced by one third of its 1998 level, i.e. from Sw F 1.2 billion to 0.8 billion in 2004.<sup>17</sup>

**Table IV.4**  
Usage of domestic support categories, export subsidies and export credits, Switzerland and Liechtenstein, 1995-99  
(US\$ million)

	1995	1996	1997	1998	1999 <sup>b</sup>
<b>Total domestic support</b>	<b>5,924.4</b>	<b>5,365.7</b>	<b>4,501.3</b>	<b>4,448.0</b>	<b>-</b>
Green box	2,229.4	2,403.6	2,127.5	2,190.4	2,300
S&D box	n.a.	n.a.	n.a.	n.a.	n.a.
Blue box	0	0	0	0	0
De minimis	0	0	0	0	0
Current total AMS <sup>a</sup>	3,625.0	2,962.1	2,373.8	2,257.6	1,924.1
<b>Total export subsidies</b>	<b>446.7</b>	<b>368.6</b>	<b>295.3</b>	<b>292.0</b>	<b>291</b>
<b>Export credits</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

n.a. Not applicable.

a Aggregate measurement of support.

b Provisional. The figures are converted into U.S. dollars on the basis of US\$1=Sw F 1.5.

Source: WTO document G/AG/NG/S/12, 15 June 2000; and the Swiss Authorities.

**Table IV.5**  
Framework plan for government support, Switzerland, 2000-03  
(Sw F million)

Item	2000	2001	2002	2003
<b>Framework plan</b>				
Infrastructure	221	272	272	272
Production and marketing	994	889	820	787
Direct payments <sup>a</sup>	2,321	2,366	2,396	2,419
<b>Total</b>	<b>3,536</b>	<b>3,527</b>	<b>3,488</b>	<b>3,478</b>

a Some of the payments are included under production and marketing.

Source: Federal Office for Agriculture.

<sup>16</sup> Office fédéral de l'agriculture (1999b).

<sup>17</sup> The policy measures in the areas will be evaluated five years after the entry into force of the law, at the latest in 2004 (Federal Law on Agriculture, Article 187).



22. Imports of agricultural products are subject to licensing requirements for health, sanitary, phytosanitary, compulsory reserve stock or tariff quota management considerations (Chapter III(2)(viii)(b) and (2)(x)). Imports of live bovines, and certain types of meat and animal flour of British origin are prohibited. Imports of bovines, goats, and sheep are allowed only from countries where the use of animal flour in ruminant feeding is banned. Likewise, imports of products containing beef are allowed only from countries where the use of, *inter alia*, brains, eyes, spinal cords, and spleens of bovines is prohibited (unless particular guarantees are provided). Under Article 18 of the Federal Law on Agriculture, the Swiss Federal Council prescribes the provisions for declaration of goods produced in a manner prohibited in Switzerland, and increases the customs duties on their import into the customs territory. The production methods banned are those not complying with the protection of life or health of persons, animals or plants, or with the protection of the environment. Accordingly, imports of meat produced using hormones, antibiotics, and other antimicrobial substances as performance stimulators (i.e. not for therapeutical purposes), and of eggs laid by domestic fowl in battery cages must be labelled as such. Moreover, specified labelling requirements apply to genetically modified organisms in food and feedstuffs (Chapter III(2)(viii)(c)). The only temporary exception is made for rape and soybean oilseeds, on which the legislation is to be replaced by the end of the year 2000.

23. With the introduction of AP 2002, government involvement in the marketing of agricultural products has been reduced: the marketing board in charge of butter imports (BUTYRA) was liquidated in April 1999 and the Swiss Cheese Union (in charge of cheese exports) was abolished in January 2000. The Confederation has commissioned private companies for the marketing of products such as meat and sugar. The scope of the guaranteed price and margin systems has been reduced substantially (sections (iii)(a) and (b)). The Price Control Authority was revoked on 31 December 1998 and a Market Observation Authority was established to keep up with the market situation of "sensitive" agricultural products.<sup>18</sup> The new Authority regularly records the prices of agricultural products at various levels of trade and processing. The following goods are currently under observation: meat and meat products, milk and dairy products, eggs and poultry, fruit and vegetables. Except for beverages, a downward trend in producer prices has been recorded for most agricultural products since 1995 (Chart IV.1). In the long run, the reforms are aimed at bringing food prices into line with (closer to) those of neighbouring countries, with an expected reduction by one half of the excess over the agricultural prices in the EU by the end of the second stage of the reforms, i.e. in 2002.<sup>19</sup>

24. The "threshold-price" system is maintained on imports of certain agricultural products, currently fodder products (Table IV.6). It is a duty-inclusive import price projected and used by the Federal Council to set variable tariffs on imports of "groups" of products. Accordingly, the threshold price comprises an "estimated" c.i.f. import price and the customs duty to bring the latter into line with the local price of the good.<sup>20</sup> On the basis of the threshold price of the groups of products, the Federal Department of Economy also determines indicative prices for "similar" products (Table AIV 1) and a permissible bracket for fluctuations of the actual duty-inclusive import prices of the two categories of goods around the threshold or the indicative prices.<sup>21</sup> Adjustments of the customs duties on the given products are undertaken to maintain their actual duty-inclusive import prices within the price brackets. The current permissible limit of fluctuations is Sw F 3 per 100 kg., i.e. no adjustment of tariffs is undertaken when the duty-inclusive import prices fluctuate by up to Sw F 3 per 100 kg. above or below the set prices.

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<sup>18</sup> The Market Observation Authority is part of the Federal Office for Agriculture, although it has an independent status.

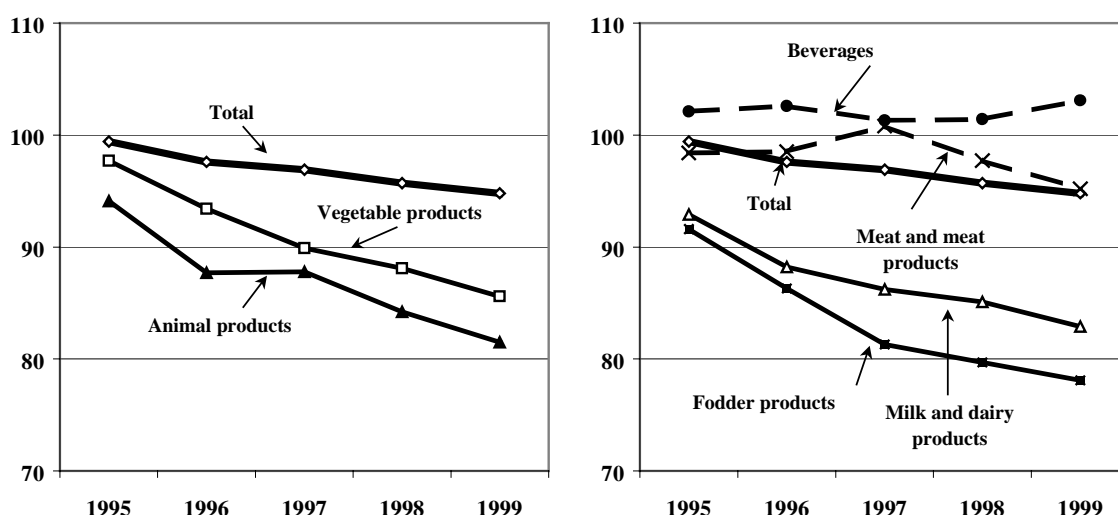
<sup>19</sup> The exception will be prices of goods produced by farm holdings in mountain regions (Burger 1999).

<sup>20</sup> The method for estimating the import price is determined by the Federal Council.

<sup>21</sup> Federal Law on Agriculture, Article 20.

**Chart IV.1**  
**Producer price indices for selected products, 1995-99**

Index May 1993=100



Source : Office Fédéral de la statistique, section des prix et de la consommation.

25. The simple average *ad valorem* equivalent (AVE) of MFN tariffs on agricultural products at early January 2000 was nearly four times the overall tariff average of 8.9%, rates range to a maximum of 678%, on out-of-tariff-quota imports of meat and edible offal (Chapter III(2)(ii)(b)). In the Uruguay Round, like other WTO Members, Switzerland and Liechtenstein have bound import duties on all agricultural products (WTO definition); as at 1 January 2000, the bound duties had been progressively reduced to their Uruguay Round final levels. The quarterly modifications of the applied duties on fodder products and seeds, on the basis of fluctuations of world prices, raise concerns about the predictability of applied tariffs; ceiling bindings on most agricultural products, with AVEs ranging up to 770%, leave considerable margins for increases in applied duties (Chapter III(2)(ii)(b)).<sup>22</sup> Moreover, Switzerland and Liechtenstein have retained the right to invoke the special safeguard clause under Article 5 of the WTO Agreement on Agriculture for all imports on which they tariffed their former non-tariff measures. A safeguard duty was accordingly collected on imports of pig meat and its by-products from 1 May to 31 December 1999 (Chapter III(2)(v)). Agricultural products are subject to the value-added tax at the reduced rate of 2.3%.

<sup>22</sup> Like the applied tariff, the bound duties on agricultural products are all specific.

**Table IV.6**  
**Threshold prices for groups of fodder products and seeds, Switzerland and Liechtenstein (since 1 January 1999)**

Heading No.	Description	"Threshold" price (Sw F/100kg)	Also applicable to:
0713	Dried leguminous vegetables, shelled, whether or not skinned or split:		
0713 1011	For animal feeding	53.00	0708.9010-0813.5092 excluding 0709.9091, 0712.9070
1003	Barley:		
1003 0010	Seed	100.00	1001.1011, 9011, 1002.001, 1003.0010, 1004.0010, 1005.1000, 1008.9013
1003.0070	For animal feeding	51.00	0709.9091, 0712.9070 and 1001.1021-1008.9071
1201	Soya beans, whether or not broken:		
1201.0010	For animal feeding, excluding beans for the production of oil	66.00	1201.0010-1208.9010 and 2103.3011
1214	Swedes, mangolds, fodder roots, hay, lucerne (alfalfa), clover, sainfoin, forage kale, lupines, vetches and similar forage products, whether or not in the form of pellets:		
1214.1010	For animal feeding	41.00	0901.9011, 1209.1110- 1404.9010 and 1802.0010, 2038.1010-9028
1501	Pig fat (including lard) and poultry fat, other than that of heading No. 0209 or 1503:		
1501.0012	Raw pig fat (including lard) for animal feeding	77.00	1501.0012-1518.0098, 3823.1110-1910
1702	Other sugars, including chemically pure lactose, maltose, glucose and fructose, in solid form; sugar syrups not containing added flavouring or colouring matter; artificial honey, whether or not mixed with natural honey; caramel:		
1702.3021	For animal feeding	54.00	1702.3021-1703.9091
2102	Yeasts (active or inactive); other single-cell micro-organisms, dead (but not including vaccines of heading No. 3002); prepared baking powders:		
2102.2011	For animal feeding	66.00	2102.1091-2102.2021
2303	Residues of starch manufacture or similar residues, beet-pulp, bagasse and other waste of sugar manufacture, brewing or distilling dregs and waste, whether or not in the form of pellets:		
2303.1011	For animal feeding	83.00	0505.9011-0511.9910, 2301.1011-2010, 2303.1011-3010 and 2309.9011-9089
2304	Oil-cake and other sold residues, whether or not ground or in the form of pellets, resulting from the extraction of soya-bean oil:		
2304.0010	For animal feeding	58.00	2304.0010-2306.9010
3505	Dextrins and other modified starches (for example, pregelatinized or esterified starches); glues based on starches, or on dextrins other than modified starches:		
3505.1010	For animal feeding	55.00	1101.0012-1108-2020, 1905.9021, 2302.1010- 5010, 3505.1010- 3809.1010, 3824.1010-9091

Source: Conseil Fédéral Suisse, Ordonnance générale sur l'importation des produits agricoles, 7 Décembre 1998 (Etat le 26 Octobre 1999).

26. As part of the tariffication exercise and in compliance with the minimum market access requirements, tariff quotas apply to certain agricultural products, a total of 283 tariff lines at the HS eight-digit level. Most of the tariff quotas are administered by means of a non-automatic licensing system (Chapter III(2)(iii)(a)). The tariff quota allocation mechanisms are based on the "prise en charge" system, traders' past imports, auction procedures, the first-come-first-served principle, the order of customs clearance, or pro-rata principle (Table IV.7). A combination of mechanisms is used for certain products. The "prise en charge" system makes tariff quota allocation conditional on the purchase of similar local products. Table IV.8 presents the products for which in-quota imports fell short of tariff-quota quantities in 1998; imports generally exceed tariff-quota quantities for products subject to the "prise en charge" system (quota allocation conditional upon the purchase of local goods). Specified quantities of the tariff quotas on wine, meat, and dairy products are reserved for individual supplying countries claiming "historical rights".<sup>23</sup>

**Table IV.7**  
**Market-access commitments via tariff quotas, Switzerland and Liechtenstein, 2000**

Product	Tariff quota	Beneficiaries/eligibility requirements	Allocation procedure
Live horses, asses, mules	3,322 animals	No limitation	Auction
Live bovines	20 animals	Breederers	First-come-first-served, with a maximum of 5% of the total to each individual importer
Live swine	50 animals		
Live goats and sheep	187 animals		
Meat (beef, sheep, goat, horse)	22,500 tonnes	Established butchers, meat producers and traders	Past imports <sup>a</sup> ; prise en charge; auction
Other meat (pork and poultry)	54,482 tonnes	No limitation	Prise en charge <sup>b</sup> ; auction
Dairy products (milk equivalent)	527,000 tonnes	Producers and manufacturers	Prise en charge; first-come-first served
Casein	697 tonnes	No limitation	Unlimited
Eggs in shell	33,735 tonnes	Companies involved in wholesale trade and transformation	Prise en charge; first-come-first served
Dried egg products	977 tonnes		Unlimited
Other egg products	6,866 tonnes		
Bull sperm	20,000 doses	Recognized breeders	First-come-first-served
Cut flowers	4,590 tonnes	No limitation	Past imports; prise en charge
Potatoes and products	22,250 tonnes		Prise en charge; auction
Vegetables	166,076 tonnes		Past imports; prise en charge; <i>pro rata</i> <sup>c</sup>
Apples, pears, quinces, fresh	15,800 tonnes		Prise en charge; past imports
Frozen vegetables	4,500 tonnes		
Apricots, cherries, etc. fresh	16,340 tonnes		Past imports <sup>a</sup> ; prise en charge; <i>pro rata</i>
Other fruit, fresh	13,360 tonnes		Auction
Fruit for cider production	172 tonnes		
Products from fruit with pips	244 tonnes		
Grapes for pressing and grape juice	100,000 hl	Licensed wine traders	Unlimited
White wine in bottles	45,000 hl		Auction
Red wine	1,620,000 hl		First-come-first served
White wine in bulk	30,600 hl		Auction
Durum wheat, undenatured	110,000 tonnes	Members of the Swiss Cereal and Fodder Co-operative	Unlimited
Bread cereals and other cereals for human consumption	70,000 tonnes		Prise en charge
Coarse grain	70,000 tonnes		Unlimited

a Past imports: quota shares allocated as a function of commercial activity, purchases or imports during the preceding year.

b Prise en charge: quota shares contingent upon purchases of local goods.

c Pro rata: quota allocation depending on the quantities requested by the individual importer.

Source: Government of Switzerland; and WTO Secretariat.

<sup>23</sup> See WTO document G/AG/N/CHE/13/Add. 1, 29 June 1999 for details on quantities of the products reserved for Benelux, France, Italy, the United States, and the European Communities as an entity.

Table IV.8  
Partially filled tariff quotas, Switzerland and Liechtenstein, 1998

Product description <sup>a</sup>	Tariff item number(s) <sup>a</sup>			Tariff quota quantity <sup>a</sup>	In-quota imports
Live horses, asses, mules and hinnies	0101.1100	0101.1991	0101.2091	3,322 (units)	2,700 (units)
Live swine	0103.1010	0103.9110	0103.9210	50 (units)	23 (units)
Dairy products, in milk equivalent	0401.1010	0403.9051	0406.2090	527,000 (tonnes)	508,949 (tonnes)
	0401.2010	0403.9061	0406.3010		
	0401.3010	0403.9069	0406.3090		
	0401.3020	0403.9071	0406.4010		
	0402.1000	0403.9091	0406.4021		
	0402.2111	0404.1000	0406.4029		
	0402.2120	0404.9011	0406.4081		
	0402.2911	0404.9019	0406.4089		
	0402.2920	0404.9081	0406.9011		
	0402.9110	0404.9099	0406.9019		
	0402.9120	0405.1011	0406.9021		
	0402.9910	0405.1091	0406.9031		
	0402.9920	0405.2010	0406.9039		
	0403.1020	0405.9010	0406.9051		
	0403.1091	0406.1010	0406.9059		
	0403.9031	0406.1020	0406.9060		
	0403.9039	0406.1090	0406.9091		
	0403.9041	0406.2010	0406.9099		
Casein	3501.1010	3501.9010		697 (tonnes)	180 (tonnes)
Birds' eggs, in shell	0407.0010			33,735 (gross tonnes)	24,170 (gross tonnes)
Fresh apricots, cherries, plums and sloes	0809.1011	0809.2010	0809.4015	16,340 (tonnes)	13,435 (tonnes)
	0809.1018	0809.2011	0809.4092		
	0809.1091	0809.4012	0809.4093		
	0809.1098	0809.4013	0809.4095		
Other fresh fruit	0810.1010	0810.2020	0810.3011	13,360 (tonnes)	12,236 (tonnes)
	0810.1011	0810.2021	0810.3020		
	0810.2010	0810.2030			
	0810.2011	0810.3010			
Fruit for cider	0808.1011	ex0808.2011		172 (tonnes)	160 (tonnes)
White wine	2204.2121	2204.2921	2204.2922	170,000 (hectolitres)	166,455 (hectolitres)
Red wine, other than industrial wine	2204.2131	2204.2931		1,530,000 (hectolitres)	1,479,078 (hectolitres)
	2204.2141	2204.2932			
Durum wheat, undenatured	1001.1031			110,000 (tonnes)	86,142 (tonnes)
Coarse grains for human consumption	1003.0061	1004.0031	1005.9021	70,000 (tonnes)	47,313 (tonnes)

<sup>a</sup> From Section I-B (or I-A) of Part I of the WTO Schedule LIX – Switzerland and Liechtenstein.

Source: WTO document G/AG/N/CHE/21, 28 June 1999.

(iii) **Policy by type of product**

(a) **Livestock and related products**

27. Livestock and related products constitute the major branch of the agricultural sector in both Switzerland and Liechtenstein, where animal breeding and dairy husbandry are traditional rural activities. The branch accounts for around three fourths of final agricultural output in value, with animal production (including meat, eggs, and poultry) accounting for about two fifths, and milk and dairy products one third (about two thirds in Liechtenstein) of the total.

28. In Switzerland, about half of the production of milk is processed into cheese by some 1,000 local cheese factories; butter is produced from 13% of the total quantity of marketed milk. Government guarantees for prices and quantity (in the past) have contributed to surpluses of milk and dairy products (with a self-sufficiency ratio of around 110%), which have given rise to subsidized exports. Around 50% of the cheese produced in Switzerland is exported, mostly to the European Union (EU). In Liechtenstein, 100 farmers produced 13,500 tonnes of milk in 1999; around 42% of the production was processed into butter, 2% into cheese, 30% into fresh dairy products, and 27% sold as raw milk. According to the Liechtenstein authorities, their country does not export milk and dairy products outside the Swiss-Liechtenstein customs territory. Exports of live bovines and beef have been stopped because of import and transit bans maintained by neighbouring countries, which still consider Switzerland and Liechtenstein as risk countries with regard to bovine spongiform encephalopathy (BSE). The self-sufficiency ratios are around: 90% for beef, veal, and pigmeat; 45% for poultry and sheep meat; 15% for horse meat; and 45% for eggs and egg products.<sup>24</sup>

29. Following the liquidation of the Swiss Cheese Union and the Swiss Butter Supply Board (BUTYRA), the producers of these goods created the Butter Interprofession (BOB) and the Swiss Cheese Organization (OFS), which represent the sub-branches and defend their interests.<sup>25</sup> However, the livestock and related products branch is still strictly regulated. Indeed, for extensive farming purposes, the Swiss Federal Council fixes the maximum number of sows, piglets, fattening pigs, poultry, and fattening calves per farm; farms not complying with this limit are liable to an annual tax set at rates high enough to make the excess number of animals non-profitable.<sup>26</sup> For quota control and statistical purposes, each manufacturer must inform the relevant authority of the quantities of milk bought from producers and their end-use. These regulations do not apply to Liechtenstein farmers in the branch; the latter are members of the Liechtenstein Milk-Producers Union.

30. In May 1999, a "target-price" system replaced the previous guaranteed-price and margin systems for milk and dairy products. It is a projected price used to, *inter alia*, determine production aids granted to producers in the branch; the target price does not include the production aids. The target price is currently set by the Swiss Federal Council at 77 centimes per kg. of milk, i.e 7.7 centimes below the 1998 guaranteed price. Production quotas on milk are maintained; the quota shares have become transferable. In Liechtenstein, the quotas are set by the Government with a view to limiting local production of milk to the self-sufficiency level (13,000 to 13,500 tonnes per year). According to the authorities, the quota system helps to avoid subsidization by Switzerland of Liechtenstein exports of milk and dairy products, given that Liechtenstein does not subsidize its exports of these products. In Switzerland, the quotas are set by the Federal Council on the basis of historical deliveries of milk. Producers who exceed their quota shares are liable to a tax of up to 85% of the target price.

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<sup>24</sup> Conseil Fédéral Suisse (1996).

<sup>25</sup> The Swiss Cheese Union and the Swiss Butter Supply Board (BUTYRA) were state-trading companies in charge of the marketing of products in their respective areas. WTO (1996).

<sup>26</sup> Federal Law on Agriculture, Articles 46 and 47.

31. Imports of live animals and related products, including meat, dairy products, and eggs are subject to tariff quotas (Table IV.7).<sup>27</sup> The Swiss Federal Council determines the period during which in-quota imports to the customs territory are allowed. The branch is the most tariff protected: the AVEs of customs tariffs on imports range up to 578% on meat and edible offal of poultry, with an average of around 105%; tariffs on dairy products range up to 523%, with an average of 70%. A special safeguard duty was imposed on imports of pig meat and its by-products from 1 May to 31 December 1999; Switzerland and Liechtenstein are considering a systematic implementation of safeguard actions under Article 5(1)(b) of the WTO Agreement on Agriculture (Chapter III(2)(v)).

32. Since 1 January 2000, Proviande, a private cooperative of producers', butchers' and traders' organizations, has been commissioned by the Federal Office for Agriculture (for a period of four years) to: price live animals and meat in domestic markets<sup>28</sup>; monitor the live animals markets; and register and control applications for tariff quotas on live animals and meat. Under the "prise en charge" system, Proviande also allocates (at prices fixed on the basis of the prevailing market conditions) excess supplies of local live animals (cattle and sheep) and meat to importers eligible for tariff quota shares. The cost of the services provided by Proviande (about Sw F 7.5 million per year) is financed under the Meat Fund (formerly called the Meat Reserve Fund) made up with part of the revenue from the customs duties collected on imports of live animals, meat, and preparations thereof.<sup>29</sup> The Fund also finances, *inter alia*, the costs (some Sw F 8.5 million) related to stocking of beef, veal and pig meat by producers in case of excess supply.<sup>30</sup> Similarly, a Compensation Fund is aimed at improving the competitiveness of the eggs and egg products sub-branch. The Fund is made up with part of the revenue from the customs duties collected on similar imported products (up to 4 centimes per egg or unit of egg content).

33. Switzerland and Liechtenstein subsidize exports of dairy and processed food products, and cattle and horses. Dairy products accounted for 63% of notified use of export subsidies by Switzerland and Liechtenstein in 1998 (Table IV.9).<sup>31</sup> Dairy and other specified preparations of animal products are eligible for the Price Compensation Scheme (section (ii)).<sup>32</sup> Domestic support for livestock and related products represents around three fourths of the total.<sup>33</sup> The Swiss Government grants a non-silage premium of 4 centimes per kg. of milk processed into cheese, a price supplement currently amounting to 20 centimes per kg. of milk processed into cheese, as well as price compensation for dairy products used as inputs. Financial support, granted to promote sales of butter and whole milk powder in the domestic markets, ranges from: Sw F 1.27 to Sw F 7.92 per kg. for butter (depending on its quality and use); Sw F 0.40 to Sw F 1.25 per kg. for whole milk powder (depending on the value of powder imported by manufacturers of chocolate or similar products). The Government of Liechtenstein subsidizes the production of butter: the subsidies amounted to around Sw F 648 million in 1999, down from Sw F 1,082 million in 1995. Furthermore, the Liechtenstein

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<sup>27</sup> With the introduction of the AP 2002, the tariff-quota shares on dairy products have become transferable.

<sup>28</sup> The pricing of products subject to the "prise en charge" system will be transferred from a cooperative (Coopérative suisse pour l'approvisionnement en bétail de boucherie et en viande - CBV) to Proviande as from 1 January 2001.

<sup>29</sup> On a given product, the share (set by the Federal Council) corresponds to the equivalent of up to 10% of the domestic price of a similar locally produced good.

<sup>30</sup> Voluntary reserve stocking is encouraged by the Government to avoid falls in prices that might result from excess supplies.

<sup>31</sup> According to the Liechtenstein authorities, their country does not subsidize exports of milk and dairy products given that it does not export them (outside the customs union).

<sup>32</sup> A major change introduced by the AP 2002 is that dairy products (mainly cheese) are eligible for the scheme throughout the year and not only during the winter, as under the former system. The scheme applies to the whole quantity of milk processed into dairy products.

<sup>33</sup> WTO document G/AG/NG/S/1, 13 April 2000.

Government provides financial contributions to local milk-collecting cooperatives and supports the transportation costs of milk (a total amount of some Sw F 442 million in 1999, broadly the same amount in 1995) (Chapter III(4)(i)). Production quotas and tariff quotas on imports, together with the various incentives, aim to meet the target price set by the Federal Council for milk and dairy products.

**Table IV.9**  
**Export subsidies, Switzerland and Liechtenstein, 1995-99**

Year	Dairy products			Cattle and horses			Fruit <sup>b</sup>			Potatoes <sup>b</sup>			Other processed food products		
	C	N	R <sup>a</sup>	C	N	R <sup>a</sup>	C	N	R <sup>a</sup>	C	N	R <sup>a</sup>	C	N	R <sup>a</sup>
<b>Budgetary outlay commitments</b>															
	Sw F million		%	Sw F million		%	Sw F million		%	Sw F million		%	Sw F million		%
1995	417.1	338.0	81	32.9	30.9	94.0	24.6	16.1	65	3.4	0.9	26	168.8	142.3	84
1996	390.5	305.0	78	30.8	17.1	56.0	23.1	..	..	3.2	..	..	158.0	133.5	84
1997	364.0	294.2	81	28.7	0.1	0.3	33.8	4.4	13	4.7	2.0	43	147.3	127.8	87
1998	337.4	265.8	79	26.6	0.3	1.0	20.7	18.9	91	2.9	1.6	55	136.5	136.8	100
1999	310.6	266.3	86	24.5	0.9	3.7	19.1	37.9	206	2.7	1.3	48	125.7	130.1	103.5 <sup>c</sup>
<b>Volume commitments</b>															
	Tonnes			Units			Tonnes			Tonnes					
1995	75,931.0	65,644.0	86	13,806.0	15,312	111.0	11,580.0	9,712.0	84	10,306.0	4,300.0	42	..	..	..
1996	73,177.0	60,021.0	82	13,306	10,654	80.0	11,160.0	..	..	9,932.0	..	..	..	..	..
1997	70,423.0	57,562.0	82	12,806	104	1.0	16,530.0	1,743.0	11	14,711.0	6,357.0	43	..	..	..
1998	67,669.0	53,916.0	80	12,306	494	4.0	10,530.0	7,377.0	70	9,371.0	6,372.0	68	..	..	..
1999	64,915.0	73,660.0	113 <sup>c</sup>	11,803.7	601	5.1	10,110.0	18,663.0	184.6 <sup>c</sup>	8,997.0	6,577.0	73.1	..	..	..

C = Commitment; N = Notified use; R = Ratio.

.. Not available.

<sup>a</sup> Ratio of notified use to commitment.

<sup>b</sup> 1 July to 31 December.

<sup>c</sup> The figures also include previously unused quantities or budgets.

Source: WTO document G/AG/NG/S/5, 11 May 2000.

#### (b) Other products

#### *Cereals and oilseeds*

34. The Organization of the Swiss Branch of Cereals and Oilseeds (OBSCO), an interprofessional association grouping farmers, traders, and manufacturers, is the forum for negotiation between these groups on production, processing, and marketing of cereals and oilseeds, and products thereof.<sup>34</sup> Production quotas on oilseeds were abolished in 1999. Two private oil refineries are still operating. Imports of cereals are subject to customs duties with AVEs reaching 298%, and averaging around 43%. Products of the milling industry bear an average AVE of around 43%. The average AVE of customs duties on oilseeds is about 14%, with a maximum of 166%.

35. The tariff quotas on bread cereals are allocated on the basis of the "prise en charge" method (Table IV.7). Producer prices are still guaranteed for cereals for bread, while the threshold-price system still applies to fodder products. Under the "prise en charge" and guaranteed price systems, the Swiss Confederation has committed itself to purchase some 390,000 tonnes (per year) of locally grown cereals for bread; in case of excess supply, producers pay the difference between the guaranteed price and the price of the excess auctioned by the Confederation as fodder cereals. The

<sup>34</sup> Before being sold in the customs territory, seeds must be officially certified and their varieties recorded in a national catalogue. The certification and recording costs are borne by the owner and thereby increase the final price of the seeds.



"prise en charge" (with purchases of at least 85% of local production) and guaranteed-price systems are to apply to cereals for bread until the end of the 2000 harvest. The systems are to be terminated for oilseeds as from the 2000 harvest, and for cereals as from 1 July 2001.

36. Farmers of vegetable crops (including cereals and oilseeds) are eligible for direct payments (Table IV.3). As from the 2000 harvest, the area payments (of Sw F 1,500 per ha) are to be granted to producers of rape, soyabean and sunflower; area payments to farmers of fodder cereals have been reduced from Sw F 770 to Sw F 400 per ha and are to be abolished in 2001.

#### *Alcoholic beverages*

37. The Swiss Confederation has held exclusive rights over production, redistilling and importation of alcoholic beverages to the customs territory. It has exercised the rights through the Federal Alcohol Board, which has commissioned private firms for specified tasks. The Board has fixed the annual quantity of alcoholic beverages it would buy from producers; it has also purchased the excess supplies of specified locally produced alcoholic beverages. The Federal Department of Finances has set the prices at which the Board has bought and sold the beverages. According to the authorities, the alcoholic beverages branch has been liberalized since 1 February 1997; producers have since been allowed to commercialize their products at market prices. Sales by producers to the Board are also set at market prices.

38. The control of vintage is under the responsibility of the cantons in Switzerland and the Office of Foodstuff Control and Veterinary Affairs in Liechtenstein; it is financed at between 60% and 80% (depending on the financial capability of each canton) by the Swiss Confederation, and at 100% by the Liechtenstein Government. The Confederation also controls the indications of origin and ensures compliance by producers with oenological regulations. The Federal Office for Agriculture (FOFA) is responsible for certification of the quality of beverages made from grape (including grape juice and wine).<sup>35</sup> The Wine Fund, made up with part of the revenue from customs duties on imports of grape beverages (the equivalent of up to 10% of the price of similar Swiss products), finances direct payments to producers, as well as promotion and marketing (including exports and certification) of wine and related products. Imports of wine are subject to tariff quotas, which are allocated to licensed traders (Table IV.7); retailers, such as supermarkets, are excluded.

39. An excise duty is collected on beverages containing more than 1.2% of alcohol per volume. Alcoholic beverages produced only through fermentation (e.g. wine, beer, cider) and with an alcohol content not exceeding 15% per volume are not subject to the duty. As from 1 July 1999, the rates of the duty have been harmonized to Sw F 29 per litre of pure alcohol content for both imports and locally produced beverages; on imports, it is still called "monopoly" duty. Specified wines, ("vin naturel") containing more than 15% and up to 22% of alcohol per volume, are subject to half of the normal duty. Exports of alcoholic beverages are eligible for full refund of the duty. The AVEs of customs tariffs on beverages, spirits and vinegar average 11%, with a maximum of around 43%.

#### *Fruit and vegetables*

40. The former tasks of the Federal Alcohol Board concerning fruit and potatoes were transferred to the FOFA in 1997. The FOFA fixes the period for imports of fruit and vegetables within tariff quotas. In 1998, administered prices for fruit for cider were eliminated. Budgetary payments to the fruit sub-branch have been reduced from Sw F 40 million to Sw F 21 million in 2000. Consumer subsidies of Sw F 0.3 million are granted for sales of fruit (cherries and plums) at reduced prices to people in need (people in mountain areas and with low incomes). Imports of specified fruits are

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<sup>35</sup> The certification concerns only wine destined for export (from both Switzerland and Liechtenstein).

subject to tariff quotas (Table IV.7). The AVEs of customs tariffs on live trees and cut flowers average some 60%, with a maximum of around 526%. The average on edible fruit is about 13%, with a maximum of around 200%.

#### *Potatoes*

41. Swisspatat, an interprofessional organization grouping producers, traders, and manufacturers, is commissioned by the FOFA to balance the domestic market by using potatoes as feed for animals, by stocking or processing excess supplies of potatoes and seed potatoes into fodder products. The Confederation pays Swisspatat Sw F 18 million for the monitoring of potato markets and Sw F 2.6 million for seed potatoes. Processed potato products are eligible for the Price Compensation Scheme. Subsidies of some Sw F 1.5 million per year are granted for exports of potato products and of Sw F 800,000 for seed potatoes, to compensate for the difference between local and world prices (the average EU price) of the goods. The Swiss Association of Seed Producers (SASP) is in charge of the selection of seed potatoes. Liechtenstein farmers are not members of Swisspatat and SASP. Import prohibitions are maintained (on phytosanitary grounds) on potatoes and seed potatoes from countries that are not members of the European and Mediterranean Plant Protection Organization (Chapter III(2)(viii)(b)). Edible vegetables, roots and tubers are subject to customs tariffs with AVEs averaging some 60% and ranging up to some 480%.

#### *Sugar*

42. Sugar is produced from beet grown in Switzerland. Production quotas are maintained on sugar: Swiss sugar refineries (the Aarberg and Frauenfeld Sugar Refineries) are commissioned by the Federal Council to supply between 120,000 and 185,000 tonnes of sugar per year to the customs territory.<sup>36</sup> The refineries annually negotiate with farmers' associations the necessary quantity of beet, its distribution among producers, and its price. The refineries are required to sell their sugar and other by-products of beet at market prices. In return, the Confederation grants the refineries financial assistance amounting to Sw F 45 million per year to support production costs. In addition, if the c.i.f import price of sugar is inferior to Sw F 35 or superior to Sw F 45 per quintal, the difference between this and local prices is taken into consideration for the determination of the Confederation's financial contribution for the following period. An advance is granted in case of substantial losses by the refineries. The prices of molasses and other by-products of beet for animal feeding are subject to the threshold price system. The average AVE of customs tariffs on sugar and confectionery is about 17%, with a maximum of 102%.

### **(3) MANUFACTURING AND ENERGY**

#### **(i) Manufacturing**

43. High production costs (including wages), together with a low level of taxation, well developed infrastructure, research facilities, and low interest rates that reflect the relatively high liquidity of the banking system, have favoured the specialization of both Switzerland and Liechtenstein in the production of capital-intensive goods. Several multinational companies are operating in the sector, although the tendency in recent years has been to transfer production to countries with lower production costs. Manufacturing is currently largely assured by small and medium-sized enterprises. The most important production branches are: machinery and electronics; scientific instruments; medical devices; chemicals (including pharmaceuticals); metal industry; food products; and footwear, textiles and clothing. Switzerland also produces watches, clocks and jewellery. The manufacturing sector is export-oriented in both Switzerland and Liechtenstein.

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<sup>36</sup> Before the reforms, the maximum quantity was set at 175,000 tonnes.

Because of the nature of the products (short-run, high-technology goods), the sensitivity (price-elasticity) of their demand to price changes (including exchange rate fluctuations) is low. Shortages of skilled labour remain the major constraint to the further development of the sector.

44. In Switzerland, the manufacturing sector contributes around 18% to total employment, one third to real GDP and 96% to the total value of merchandise exports; each of the two largest branches, machinery and electronics, and chemicals, accounts for around 30% of this value. The sector has, in recent years, experienced structural changes in favour of branches such as biotechnology and medical equipment. It was seriously affected by the early 1990s economic crisis and the Asian financial crisis of 1997-99. The poorest performance was recorded in 1995 and 1996. The branches most negatively affected were the metal industry, footwear, textiles and clothing (demand in the European markets declined)<sup>37</sup>, and watches (demand in the East-Asian markets fell); machinery and equipment industries resisted. Since 1997, most industries have generally been performing well and their exports have been growing (Table IV.10).

45. In Liechtenstein, manufacturing accounts for around 46% of total employment; some 1,700 enterprises are operating.<sup>38</sup> Almost all the production is exported (about half to the EU): the sector is virtually the only source of revenue from merchandise exports. Metal-working, vacuum engineering, precision tools, food products, electronic systems, and artificial teeth and dentistry are the most important branches.

46. Except for policy instruments designed to promote processing of agricultural products (sections 2(ii) and (iii)), and reductions and refunds of customs duties on imports of specified inputs (e.g. textiles and clothing, aluminium and articles thereof), or under the Processing Traffic Scheme, Switzerland and Liechtenstein do not have policies specific to manufacturing. They have not resorted to quantitative restrictions on imports of textiles, clothing and footwear. However, they retain the right to use the transitional safeguard mechanism of Article 6 of the WTO Agreement on Textiles and Clothing (Chapter III(2)(v)). Both the Swiss and Liechtenstein Governments finance or participate in the financing of research programmes in areas presenting significant interests for the development of their economies (Chapter III(4)(ii)); these are, *inter alia*, medical technology and software programs for the Swiss economy.<sup>39</sup> In addition, the Government of Switzerland provides financial support to manufacturing companies and services companies with activities closely linked to manufacturing processes, and which invest in areas under economic renewal (Chapter III(4)(i)). An incentive scheme is also available for the development of environmental technologies. Under this scheme, the Swiss Government provided financial support of Sw F 2 million in 1997 and some Sw F 4 million in 2000.

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<sup>37</sup> The textiles and clothing branch, dominated by small enterprises producing high-quality yarns, fabrics and silk products, industrial textiles, and luxury clothing, has for decades experienced strong pressures. The economic crisis of the early 1990s and the Asian financial crisis also played a role. In 1999, the value of Swiss exports of textiles, clothing, and footwear, at some Sw F 3.8 billion, was 24% below its 1990 level. For the clothing industry, the value of outward processing traffic (some 10% of total sales) increased from around Sw F 44 million in 1986 to a peak of about Sw F 109 million in 1993, and declined to some Sw F 84 million in 1996. The branch has benefited from pan-European cumulation of origin (Nell, 1998).

<sup>38</sup> The figures correspond to the secondary sector as a whole.

<sup>39</sup> The chemical industry is a research-intensive branch of the manufacturing sector.

**Table IV.10**  
**Exports by major Swiss industries, 1994-99**  
(Percentage changes of nominal values)

Manufacturing sectors	1994	1995	1996	1997	1998	1999	1994/99
<b>Food and beverages</b>	<b>6.0</b>	<b>-2.2</b>	<b>0.2</b>	<b>7.3</b>	<b>-2.1</b>	<b>5.2</b>	<b>14.8</b>
Food	0.8	0.5	-0.2	8.3	3.2	4.7	18.3
Beverages	18.2	-13.5	4.2	32.3	-2.6	15.8	59.0
Tobacco	22.3	-5.9	2.2	-2.5	-20.5	0.6	-8.3
<b>Textiles and clothing</b>	<b>-0.9</b>	<b>-7.9</b>	<b>-7.1</b>	<b>7.1</b>	<b>0.9</b>	<b>-4.6</b>	<b>-12.6</b>
Textiles	0.2	-6.8	-9.2	5.4	1.0	-5.7	-14.9
Clothing	-1.2	-7.0	1.5	14.0	3.2	1.0	10.8
Footwear	-10.3	-21.8	-14.2	-0.7	-10.7	-19.8	-57.2
<b>Paper and printing</b>	<b>8.7</b>	<b>7.7</b>	<b>-2.0</b>	<b>14.2</b>	<b>6.5</b>	<b>6.5</b>	<b>48.6</b>
<b>Leather and plastics</b>	<b>6.7</b>	<b>0.3</b>	<b>-5.5</b>	<b>9.9</b>	<b>6.3</b>	<b>6.1</b>	<b>25.4</b>
Leather products	16.9	-12.1	-8.5	5.6	-0.2	5.8	4.8
Plastics products	5.7	2.2	-4.9	10.9	7.5	6.6	30.6
<b>Chemical products</b>	<b>5.1</b>	<b>2.4</b>	<b>8.0</b>	<b>14.2</b>	<b>5.6</b>	<b>8.6</b>	<b>52.2</b>
Pharmaceuticals	4.5	5.4	13.8	18.4	9.8	14.7	86.9
Agrochemical products	-2.0	10.2	5.0	-4.2	3.4	-17.0	-6.8
<b>Metals and metal products</b>	<b>4.9</b>	<b>7.3</b>	<b>-1.9</b>	<b>10.7</b>	<b>5.4</b>	<b>-0.9</b>	<b>27.7</b>
Iron and steel	-4.5	4.9	-19.1	26.8	2.4	-7.5	-2.7
Metal products	5.0	6.8	0.5	7.8	7.2	-0.3	29.8
<b>Machinery and equipment</b>	<b>5.3</b>	<b>4.9</b>	<b>2.4</b>	<b>10.1</b>	<b>3.4</b>	<b>2.3</b>	<b>31.7</b>
Non-electric engines	-6.1	1.2	17.9	9.8	1.0	9.8	36.4
Machinery	7.1	6.0	-0.9	10.9	1.8	-1.1	25.6
Electrical and electronic parts	6.6	7.2	5.7	10.4	6.0	1.6	43.6
<b>Vehicles</b>	<b>-4.6</b>	<b>12.4</b>	<b>26.3</b>	<b>3.3</b>	<b>10.9</b>	<b>12.8</b>	<b>75.0</b>
Road vehicles	2.0	-10.7	3.9	14.7	18.9	4.6	35.0
Spare parts	8.3	6.2	8.6	10.0	26.5	10.2	91.5
<b>Instruments</b>	<b>2.4</b>	<b>0.9</b>	<b>3.2</b>	<b>11.9</b>	<b>6.5</b>	<b>9.9</b>	<b>39.7</b>
<b>Watches</b>	<b>4.9</b>	<b>-3.6</b>	<b>-1.6</b>	<b>10.1</b>	<b>1.3</b>	<b>6.9</b>	<b>18.6</b>
<b>Furniture</b>	<b>-3.6</b>	<b>3.7</b>	<b>0.9</b>	<b>4.6</b>	<b>12.9</b>	<b>10.5</b>	<b>31.6</b>
<b>Total, merchandise exports</b>	<b>4.1</b>	<b>2.0</b>	<b>2.4</b>	<b>11.6</b>	<b>3.8</b>	<b>4.9</b>	<b>32.1</b>

Source: Information provided by the Swiss authorities.

47. Standards and technical regulations that had constituted important barriers to trade, including in manufactured products, have been substantially harmonized with those of the major trading partners, the European Communities (EC) in particular (Chapter III(2)(viii)). Subject to ratification by the EU Member States, the mutual recognition agreement (in relation to conformity assessment) between Switzerland and the EU is expected to further improve market access. Regulations are still different in areas such as pressure vessels, invitro-diagnostica, civil explosives, "recreational crafts", cable cars, and chemicals (Chapter III(2)(viii)). For instance, before being submitted for sale, chemicals (substances and chemical products) must be registered as toxic substances with the Federal Office for Public Health, the full composition of chemical products must be submitted; the person registering the products must have his place of business in Switzerland. In the case of Liechtenstein, such barriers to its trade with the other members of the European Economic Area have been eliminated since its membership and the establishment of the Market Control and Surveillance Mechanism for the purpose of parallel marketability of products (Chapter II(5)(iii)(b)). Regarding parallel imports of patented products (including manufactured goods such as drugs), the Swiss Federal Tribunal recently upheld the principle of national exhaustion (Chapter III(4)(iv)(b)). Furthermore, parallel imports of drugs are not allowed in Switzerland. Drugs can only be substituted by generics once the patent protection has elapsed. Parallel imports of patented products (including drugs) from

the other EEA member countries to Liechtenstein are made through the MCSM (Chapters II(5)(iii)(b) and III(4)(iv)(b)).

48. Imports of motor vehicles are limited mainly by non-tariff barriers although Switzerland and Liechtenstein do not produce motor vehicles on a commercial scale. Indeed, distribution contracts with foreign manufacturers normally prohibit parallel imports. Motor vehicles must be imported through "official" channels, by either representatives with exclusive rights conferred by manufacturers<sup>40</sup>, or by foreign dealers or distributors. Garages are obliged to purchase all supplies through "official" channels and must only use parts labelled as "original" by the manufacturer. This may include parts such as airbags, which are produced in Switzerland, exported, packed and labelled, and re-imported. Garages are normally obliged by manufacturers or importers to keep a specified range and level of stock.<sup>41</sup> In accordance with a 1997 decision by Comco, dealer contracts in the automobile branch are compatible with the provisions of the LCart if they conform with either a 1994 Code of Conduct on the shape of brand dealer contracts (for distribution of motor vehicles and repair parts) issued by the former Cartel Commission and published in 1996, or with Block Exemption Regulation 1475/95 of the EU.<sup>42</sup>

49. Under the Ordinance on Type Approval of Road Vehicles, each resident in the customs union can import only one motor vehicle per type of make per year. Commercial importers (i.e. persons importing more than one vehicle per type of make per year) are subject to a licensing fee of Sw F 5.50 for each imported motor vehicle. Moreover, all vehicles and specified parts must be homologated. Inspection by the local Cantonal Automobile Office (after completion of customs clearance for the motor vehicle) addresses, *inter alia*, pollutant emission, noise, brakes, lights and lighting, speedometer and tachometer readings, and make of tires. The inspection fee of around Sw F 50 to Sw F 80 (according to cantonal decrees) and, if necessary, costs incurred to bring the vehicle into compliance with the local regulations are borne by the owner. The Swiss regulations on motor vehicles do not apply to imports from the other EEA member countries to Liechtenstein (following its membership in the EEA).

50. The level of tariff protection in the manufacturing sector has remained relatively low. The Information Technology Agreement, the Pharmaceutical Initiative and the Plurilateral Agreement on Trade in Civil Aircraft have contributed to the further liberalization of the sector. The simple average of the *ad valorem* equivalents (AVEs) of customs tariffs on manufactures is well below the overall average of 8.9% Chapter III(2)(ii)(b).<sup>43</sup> However, owing to the imposition of specific duties, tariff dispersion is more pronounced in manufacturing than the other sectors since the value of manufactured goods (mainly high-technology products in the present case) is not generally linked to their weights. Positive tariff escalation is present in branches such as food products, textiles, leather

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<sup>40</sup> Most international car manufacturers are represented in the customs territory; Opel (GM) and Volkswagen-Audi are the largest firms.

<sup>41</sup> WTO (1996).

<sup>42</sup> The 1997 investigations by Comco of the Volkswagen Group, to clarify whether the Group hindered direct and parallel imports of its motor vehicles to Switzerland, concluded that dealer contracts by the Group had not contained any prohibition of "passive sales" into Switzerland; the contracts had not generated significant restraints of competition. Consequently, the case was closed without imposition of remedial measures. Furthermore, a decision is expected by 2001 with regard to an investigation by Comco (on similar cases of dealer contracts, initiated in November 1998) against the official distributor of Citroën cars in Switzerland.

<sup>43</sup> The average tariff for imports under HS 25-97 is 2.4%, a grouping that includes mining and quarrying, but excludes processed agricultural products. Using ISIC (Revision 2), "manufacturing" as defined by Major Division 3, the average tariff is 6.8%, a grouping which includes processed agricultural products.

products and chemicals (Chapter III(2)(ii)(b) and Table AIII.2). Most manufactured products bear the standard rate of 7.5% of the value-added tax.

51. Except for processed agricultural products, the highest imports duties on manufactured products apply to: textiles such as cordage and rope on which the average AVE is 13%, with a maximum of 39%; specified non-ferrous basic metal products on which the AVEs range up to 38%; and certain basic industrial chemicals with AVEs reaching 43%. Imports of motor vehicles are subject to customs tariffs with AVEs averaging about 2% and ranging up to some 12%. Lower customs tariffs, with AVEs averaging 0.3%, apply to aircraft, spacecraft, and parts thereof, imports of some of these products being duty-free under the Plurilateral Agreement on Trade in Civil Aircraft. Given that the customs tariffs are specific, their incidence is considerably higher on second-hand and large-volume (heavy and relatively cheap) vehicles. In addition, imports of motor vehicles are subject to an excise tax (the motor vehicle tax) of 4% levied on their customs-duty inclusive c.i.f. value (Chapter III(2)(ii)(d)).

## **(ii) Energy**

52. Switzerland does not produce fossil fuel. Therefore, around 81% of the total value of energy (mostly fossil fuel) consumed in Switzerland in 1999 was imported. Crude oil accounts for around one third of total oil imports, oil products making up the difference. Crude oil is refined in two plants, owned by Shell and Tamoil. Four main companies dominate the retail (distribution) market. The oil price is freely set by the companies. In contrast, the natural gas market is mostly under the monopoly of cantons and municipalities; the majority of gas companies are owned by cantons or municipalities, including the seven largest, which have 50% of the market share. Swissgas, a privately owned natural gas transport company, is the major importer (75% of total imports of natural gas to Switzerland).<sup>44</sup> The prices of natural gas are either set or subject to approval by local authorities.

53. Electricity is the major source of energy produced in Switzerland. The bulk of the production is from some 350 hydroelectric power plants (about 61% of the production in 1999) and five nuclear power plants (around 35%).<sup>45</sup> Other sources of electricity include waste, biomass (wood in particular), fossil-fired combined heat and power, and solar and wind energy. The total production of electricity was nearly kWh 67 billion in 1999. The electricity branch employed around 20,000 persons in 1997. Trade in electricity is mostly with neighbouring countries: imports are mainly from neighbouring French nuclear power plants, and exports are to neighbouring Italy (Chart IV.2). Exports are no longer subject to a federal licence.

54. The electricity branch comprises some 1,200 companies of which: six are vertically integrated and mainly active in generation, transmission and trade (Chart IV.3); 300 are active in production and distribution; 200 are (mostly) joint-owned by other utility companies and are active in production; and around 700 companies are mainly distributors and operate at municipal levels. Forty major firms account for more than 60% of total distribution. The branch is 72% owned by cantons and municipalities, (mainly in the field of distribution). Related generation, transmission, and distribution activities are still under monopolies.<sup>46</sup> Seven major electricity companies currently own the electricity grid. The electricity prices are set either by cantonal or communal authorities, or by companies, subject to approval by the Price Surveillance Authority (Chapter III(4)(iii)(b)). Therefore, the price differs between cantons or municipalities. This monopolistic situation and various taxes collected mostly at cantonal and/or communal levels have contributed to relatively high average

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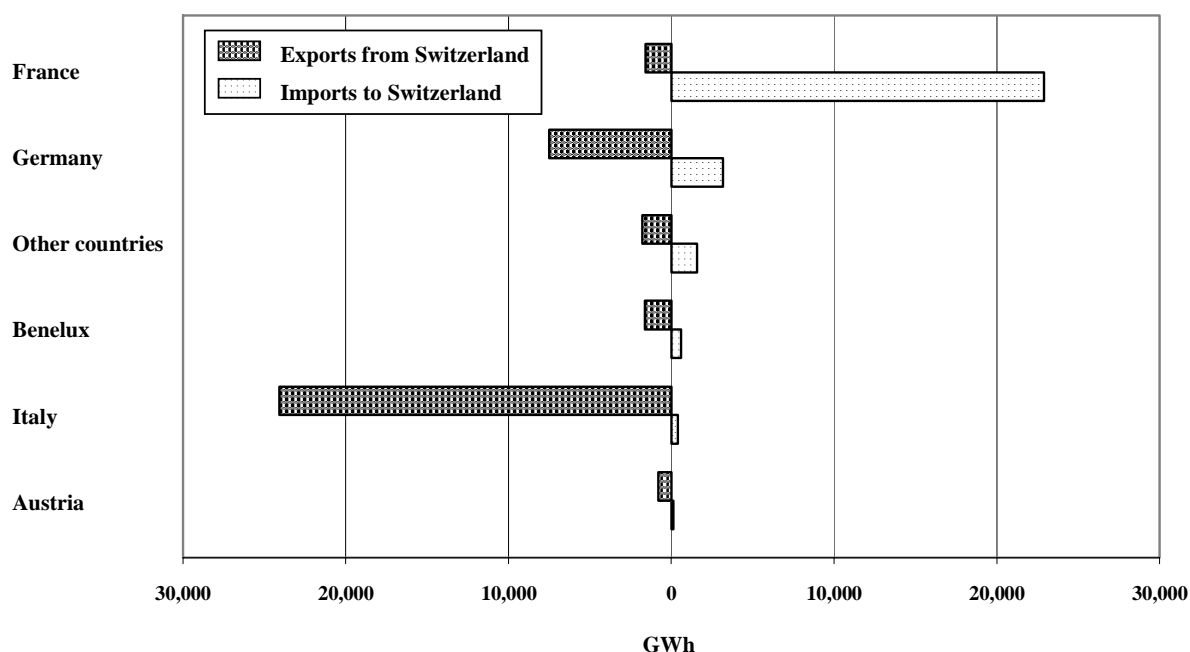
<sup>44</sup> OECD/IEA (1999).

<sup>45</sup> Conseil Fédéral Suisse (1999d).

<sup>46</sup> Competition is not forbidden by law; it is prevented in practice by the absence of a third-party access obligation.

prices for industry<sup>47</sup>: in 1997, the average electricity price to Swiss industry was the second-highest amongst International Energy Agency member countries.<sup>48</sup>

**Chart IV.2**  
**Cross-border trade in electricity, Switzerland, 1998**



Source : Office Fédéral de l'Energie.

55. In 1991, the Swiss Federal Council launched the Energy 2000 Action Programme known as Energy 2000. The goals of the programme are: the stabilization of total fossil fuel consumption and of emissions of carbon dioxide (CO<sub>2</sub>) in the year 2000 at the 1990 levels, and subsequently, a reduction of 10% by 2010 as laid out in the CO<sub>2</sub> law; continuous reduction of the growth rate of electricity consumption during the 1990s and stabilization of demand after the year 2000; renewable energies are to contribute an additional 0.5% to electricity generation and 3% to heat generation by the year 2000; and by 2000, the production of hydro-power is to be increased by 5% and the generating capacity of existing nuclear power plants by 10%. The implementation of the programme is based on: voluntary measures on energy efficiency and on use of renewable forms of energy; legislative framework on the supply and use of energy (the Federal Energy Law); and dialogue in case of dispute. Energy 2000 involves the Confederation, the cantons, the municipalities, and the business and private sector.<sup>49</sup>

56. The Federal Energy Law came into force on 1 January 1999. It is aimed at promoting a rational use of energy and encourages use of local and renewable energies. The Federal Government and the cantons may participate by up to 40% (exceptionally 60%) in the incremental cost of related

<sup>47</sup> Hidden taxes and charges levied on electricity by cantons and municipalities are estimated at some 20% of its final cost.

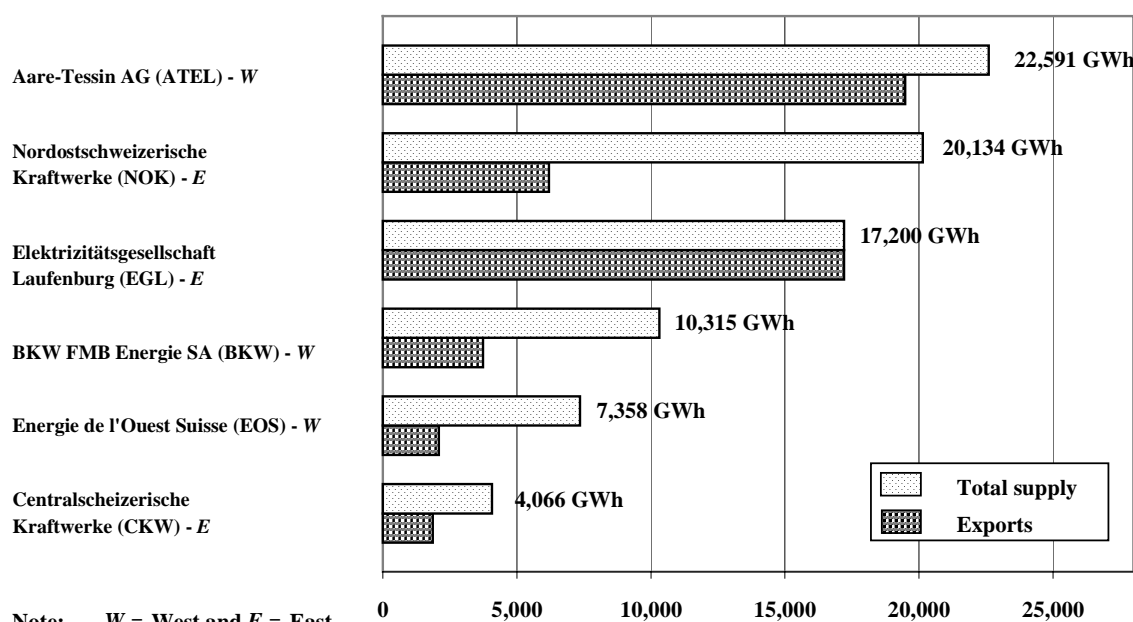
<sup>48</sup> OECD/IEA (1999).

<sup>49</sup> See Swiss Federal Department for Environment (1999) for details.

projects. A follow-up programme called "Energy Suisse" is to replace Energy 2000 as from the beginning of 2001; it will be aimed at implementing the provisions of the Federal Energy Law.

### Chart IV.3

#### Structure of the electricity market in Switzerland, 1997



Source: Office Fédéral de l'Energie.

57. The Electricity Market Law (EML), to be adopted by the Parliament in 2000, will come into force in 2001. The EML will provide for regulated third-party access to the national grid and a phased opening of the electricity market (21% in 2001, 34% in 2004 and full opening in 2007). Generation, trade, and related services are to be fully liberalized by the year 2007, and consumers are to be free to choose their suppliers.<sup>50</sup> However, transmission and distribution of electricity will be subject to a new national monopoly regulation. A company governed by private law is to be created three years (at the latest) after the entry into force of the EML to manage the national transmission grid (transmission system operator).<sup>51</sup> The company will be required to purchase certain percentages of its supplies from renewable sources. The electricity price is to be set by companies according to the cost-reflective and efficiency-oriented principle. In the long run, the reforms are expected to reduce the electricity price in Switzerland to its average level in the EU. The market opening schedule, the establishment of the grid management company, as well as compensation for stranded assets of hydroelectric power plants (among others) are still under discussion.

58. In Liechtenstein, the bulk of energy is imported; oil accounted for more than one quarter of the total value of energy imports in 1999 (Chart IV.4). In 1999, domestic production of energy rose by nearly 10% to GWh 88,951 and represented around 6% of total consumption; imports make up the

<sup>50</sup> New generation capacities are to be subject to authorization under federal and cantonal legislation. Cross-border supply of electricity to Swiss consumers would be subject to a reciprocity principle.

<sup>51</sup> The company must not be involved in generation and distribution, nor hold shares in the capital of firms involved in such activities. The transmission price is to be set or approved by the Federal Council.

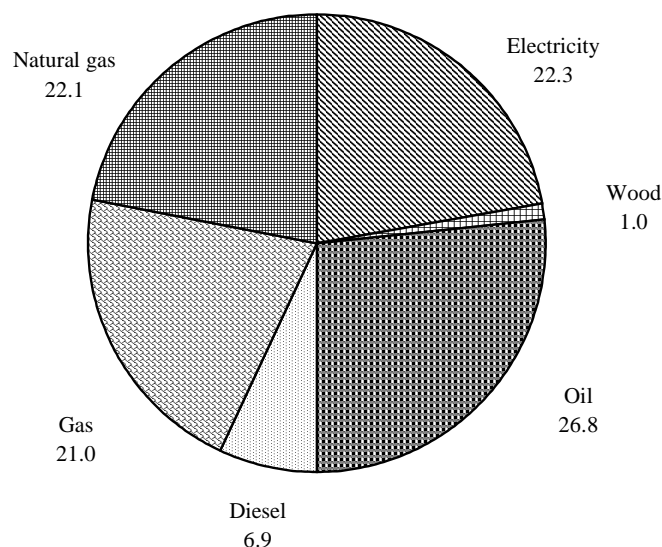


difference (94% of total consumption). Electricity is the major source of energy produced in Liechtenstein: the total production of electricity was GWh 73,561 (some 25% of total electricity consumption). Electricity is produced by four hydroelectric power stations, 14 solar power stations, one thermal station using natural gas and another using biogas.

#### Chart IV.4

#### Energy imports by product, Liechtenstein, 1998

Per cent



**Total: 1,271,906 MWh**

Source: Amt für Volkswirtschaft, Liechtenstein.

59. A 1996 law promotes the rational (including environmentally protective) use of energy and encourages the use of renewable energies. The Government financially supports, *inter alia*, refurbishment of old buildings and special heating or solar technology. The financial contributions of the Government amount to some Sw F 650,000 per year. Two state-owned companies, Liechtensteinische Kraftwerke (LKW) and Liechtensteinische Gasversorgung (LGV), are operating in the branch (LKW for production and distribution, and LGV for distribution); they employ 160 persons. Liechtenstein is connected to the Swiss grid. Under certain agreements, LKW imports electricity exclusively from the north-eastern Swiss supplier, NOK; it holds exclusive production and distribution rights (Table AIII.5). LKW also sets electricity prices; the highest prices apply to household consumption. High prices also apply during peak hours of consumption. Lower prices apply to large enterprises, which have to establish their own transformer station. LGV holds exclusive distribution rights over gas and it sets the price. Private companies are operating in the petroleum sub-branch where the prices are market-determined. Liechtenstein is to liberalize its electricity and natural gas markets with a view to implementing the relevant EU regulations. The electricity market will probably be liberalized in parallel with the Swiss market since the product is imported only from Switzerland.

60. The same duties and taxes apply on energy in both Switzerland and Liechtenstein. The customs tariffs on the products are relatively low: imports of electricity, crude petroleum, and natural gas are duty free; and the average AVE on petroleum and coal products is 1.8%. The value-added tax

is collected at the standard rate of 7.5%. An incentive tax, and a mineral tax and surtax are also levied (Chapter III(2)(ii)(d)). Other taxes, such as the energy incentive tax (on non-renewable energies), the Ecotax, and another tax proposed under the so-called "Solar Initiative" were to be subject to public vote in September 2000. The proposed energy taxes are aimed at, *inter alia*, reducing pollutant emission, promoting renewable energies and efficient use of energy, and/or supporting accelerated amortization of existing investment in hydroelectric power plants.

#### (4) SERVICES

61. Services are the most important sector of the Swiss economy, accounting for nearly two thirds of real GDP and contributes around three fourths to total employment. The sector is relatively diversified; financial services represent the most important subsector. Switzerland is a net exporter of services. Likewise, financial services are of great importance to the Liechtenstein economy. The development of this branch has been favoured by, *inter alia*, the monetary union with Switzerland; Liechtenstein's membership in the EEA has also played its part since 1995. The sector accounts for somewhat more than a half of total employment in Liechtenstein.

62. Switzerland and Liechtenstein each have their own policies on trade in services, and act independently in international fora, including the WTO. State intervention in the services sector has been reduced substantially. However, in both countries, competition remains limited in certain branches where public or private companies still hold monopolies or exercise exclusive rights (Table AIII.5). Commitments made by Switzerland and Liechtenstein under the GATS largely reflect the current state of competition in their services branches. With the exception of presence of natural persons (the measures concerned are unbound), Switzerland and Liechtenstein have largely bound (generally without limitations) measures affecting almost all the other modes of supply of services. However, the measures affecting commercial presence for the supply of certain services are either unbound or the related commitment is qualified (e.g. legal services) while those on cross-border supply of maintenance and repair of transport equipment, rental/leasing of ships without operators, and packaging services are unbound.<sup>52</sup> Financial services commitments are largely qualified. Switzerland took the opportunity offered by the latest negotiations on financial and telecommunications services, in which it participated, to further improve its commitments (mainly on telecommunications services).

63. Switzerland and Liechtenstein have maintained MFN exemptions under Article II of the GATS on the grounds of: bilateral or regional agreements; promotion of common cultural objectives; immigration regulation; or protection of the integrity of road infrastructure and the environment (e.g. supply of road transport services is contingent upon reciprocity under bilateral agreements). Switzerland has also maintained MFN exemptions to regulate transport capacity on inland waterways (access to transport services on the Rhine is limited to, *inter alia*, beneficiaries of the Mannheim Convention). In the case of Liechtenstein, MFN exemptions are also maintained to ensure "adequate" market access to local suppliers (the supply of construction and related engineering services is contingent upon reciprocity).<sup>53</sup>

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<sup>52</sup> See WTO documents GATS/SC/83 and GATS/SC/83-A, 15 April 1994 for details of specific commitments under GATS by Switzerland and Liechtenstein, respectively.

<sup>53</sup> See WTO document GATS/EL/83 and GATS/EL/83-A, 15 April 1994 for Final Lists of Article II (MFN) Exemptions for Switzerland and Liechtenstein, respectively.

**(i) Financial services****(a) Banking and fund management services***Switzerland*

64. Political and social stability, prudent monetary management, a liberal regime on capital movements, and a tradition of bank secrecy comprise the key elements of the internationally integrated banking network developed by Switzerland. With a market share of 35% in 1999, Switzerland is among the world leaders in cross-border portfolio management.<sup>54</sup> As a result of increased competition and restructuring efforts through mergers, take-overs, and closures, the total number of banks in Switzerland fell by more than one third of its 1990 level to 376 by the end of 1998 (Chart IV.5a). The restructuring efforts helped to nearly double the total assets of banks between 1993 and 1999 (Chart IV.6). Banking and fund management employs around 144,500 persons (3.7% of the total employment)<sup>55</sup>; and represents 10.9% (based on 1997 data) of total GNP, with asset management accounting for more than half. Following the merger of the Union Bank of Switzerland (UBS) and Swiss Bank Corporation in December 1998, UBS and Credit Suisse Group, the two biggest banks, currently account for around two thirds of the total combined balance-sheet (Table IV.11) and more than half of the Swiss banking market. With assets totalling some US\$750 billion, UBS (the biggest Swiss bank) is the world's third and Europe's second largest bank.<sup>56</sup>

65. Owned by cantonal governments, the 24 cantonal banks account for a quarter of domestic banking business, and concentrate on credit, deposit business, and mortgages in their local areas.<sup>57</sup> Incorporated in 1905, the Swiss National Bank (SNB), an independent Central Bank with capital shares owned by cantons, cantonal banks, certain public bodies, and Swiss citizens, *inter alia*, formulates and implements monetary policies (including their credit component). It is a clearing-house for interbank transfers. With a network of some 3,600 branches, Swiss Post (the state-owned postal system) manages some 1.8 million accounts with a total deposit value of some Sw F 18 billion equivalent to 8% of total saving deposits in the banking system.

66. Banking activities in Switzerland are regulated by the 1934 Banking Law, as amended up to 1999, and its Ordinance. Most banks are universal, and there are few limitations on banks' participation in non-banking commercial activities.<sup>58</sup> The Swiss Federal Banking Commission (SFBC) is the regulatory authority for all banks in Switzerland, including cantonal and subsidiaries of foreign banks. An authorization from the SFBC is required to open a bank, or branches, subsidiaries or representative offices of foreign banks in Switzerland.<sup>59</sup> For a foreign bank, the prerequisite conditions for the authorization are: reciprocity on the part of the foreign country; and the name of the foreign bank must not give the impression that it is a Swiss bank. In the case of a subsidiary, the majority of the Board of Directors must have permanent residence in Switzerland. In addition, general requirements for the establishment of foreign companies in Switzerland apply to banks. The reciprocity requirement no longer applies in cases covered by international obligations (e.g. foreign banks domiciled in a WTO Member country). A minimum capital of Sw F 10 million is required.

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<sup>54</sup> Federal Office for Economic Development and Labour (1999).

<sup>55</sup> UBS (2000).

<sup>56</sup> EIU (1999).

<sup>57</sup> In recent years, the activities of cantonal banks have become more diversified; they include asset management, consumer credit, and export financing. Almost all the cantonal banks were originally established by the states (cantons); and 22 have their liabilities guaranteed by the cantons.

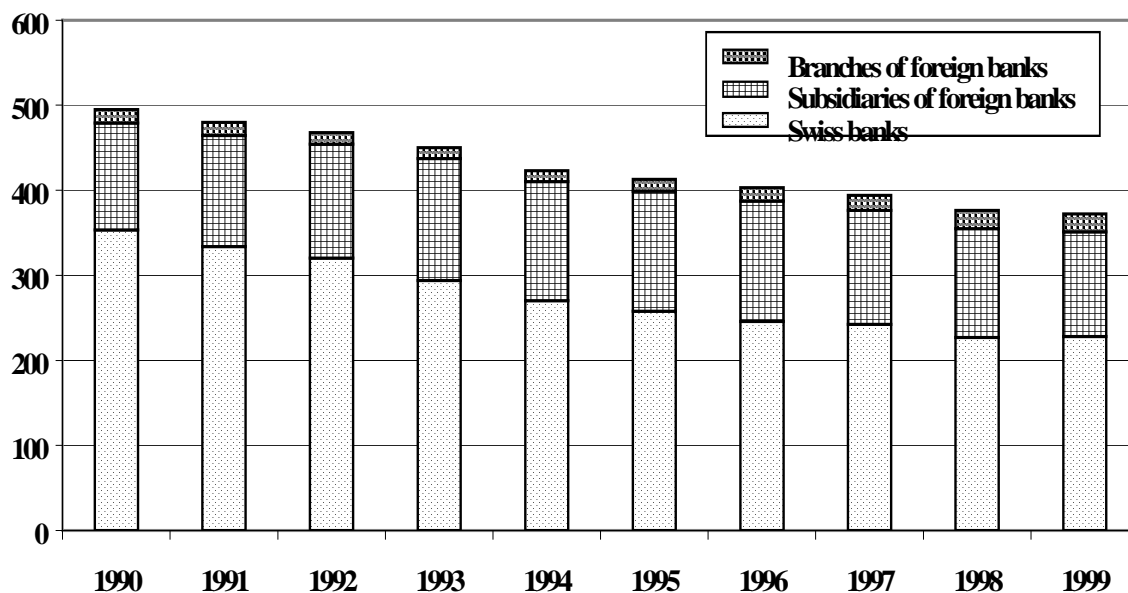
<sup>58</sup> See WTO (1996) for details on the limitations.

<sup>59</sup> The Federal Council may conclude bilateral treaties to authorize the establishment of branches, agencies or representative offices, and the provision of cross-border services on the basis of home-country control and subject to mutual recognition of equivalent standards of control and regulation.

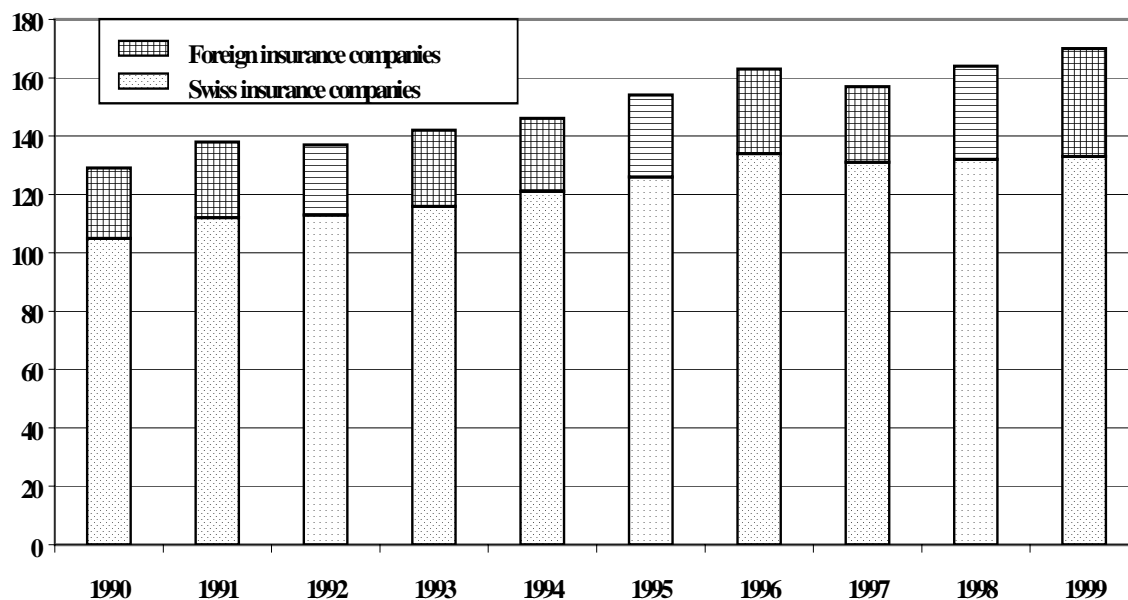
# Chart IV.5

## Number of banks and insurance companies in Switzerland, 1990-99

### (a) Banks

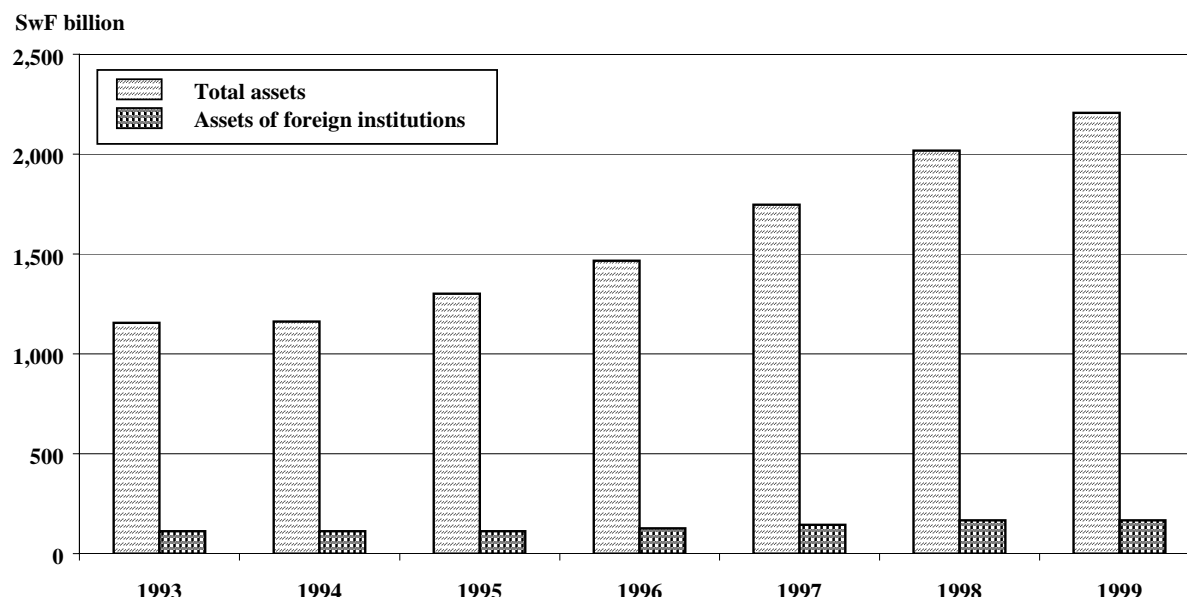


### (b) Insurance companies



Source : Swiss National Bank, 1999 and Swiss insurance association, 2000.

**Chart IV.6**  
**Assets of the Swiss banking system, 1993-99**



Source: Information provided by the Swiss National Bank.

**Table IV.11**  
**Structure of the Swiss banking system, 1998**

	Number	Total assets (Sw F billion)
Large banks	2	1,373.5
Cantonal banks	24	274.3
Regional and savings banks	108	71.7
Loan associations	1	61.5
Private banks	16	13.0
Foreign-owned banks (including branches)	149	165.2
Other banks	75	98.6

Source: Information provided by the Swiss National Bank, 1999.

67. A foreign bank may be authorized to open a branch if its head office has adequate organizational structure and financial resources, is able to maintain a durable activity, and is subject to appropriate surveillance. A foreign bank, having established a subsidiary, is entitled to open branches or (unincorporated) agencies, subject to SFBC approval. The main supervisory responsibilities are with the supervisory authority of the foreign parent bank: as from 1 October 1999, competent foreign supervisory authorities may carry out on-the-spot inspections of foreign banks operating in Switzerland.<sup>60</sup> Acceptance of funds from foreign banks with no physical presence in Switzerland (e.g. banks with simple accounts in Switzerland with funds to be transferred abroad) is no longer subject to authorization. However, foreign banks operating in Switzerland must inform the Swiss National Bank about their cross-border activities and relations.

<sup>60</sup> The Banking Law, Article 23<sup>septies</sup>.

68. In general, the same regulatory requirements apply to Swiss and foreign banks. The requirement for Swiss branches of foreign banks to retain 10% of their assets in Switzerland was repealed in October 1996. Authorization by the SFBC is required to trade professionally in stocks and shares, and before Swiss banks open branches, subsidiaries, or representative offices abroad.<sup>61</sup> Any acquisition or sale by a major shareholder (i.e. minimum 10% of the capital or voting rights of the bank), or acquisition or sale of specified majority of shares of a bank operating in Switzerland is also subject to SFBC authorization.<sup>62</sup> Capital exports (including loans to non-residents) in excess of Sw F 10 million and for more than one year are subject to approval by the SNB.

69. The canton in which a cantonal bank is located must hold at least one third of its capital and voting rights. Following the 1999 amendment to the Banking Law, a cantonal guarantee for default risks is no longer mandatory. In the case of the Cantonal Bank of Geneva for example, the "Grand Conseil" recently voted a guarantee of Sw F 5 billion in favour of a foundation called the "Fondation de valorisation". Moreover, the SFBC is empowered to liquidate cantonal banks that do not comply with provisions of the Law. Cantonal supervisory powers remain only for cantonal requirements regarding special services in the public interest.

70. Under the 1995 Federal Act on Stock Exchanges and Securities Trading (SESTA) and its 1996 Ordinance, the rules of conduct in the stock market are issued by self-regulatory bodies and approved by the FBC; the prudential framework is similar to that of banks. Under the SESTA, buyers or sellers of capital shares of Swiss-domiciled companies (with equity stock quoted in Switzerland) must notify the companies and the stock exchange authorities of any transaction that may cause their shares to reach, exceed or drop below specified thresholds of the total voting rights. Persons acquiring equity stock of a company and who may thereby possess more than one third of the voting rights, must submit a bid for all quoted equity stock of the company. Commercial presence in Switzerland is required to lead-manage Swiss-franc-denominated issues.<sup>63</sup> Moreover, two institutes have been granted exclusive rights over the issuance of specific mortgage bonds (Pfandbrief and "lettre de gage"): only Swiss cantonal banks are accepted as members of the first institute while Swiss-based banks (banks with head office in Switzerland) with national mortgage loan business of at least 60% of their balance sheets can be members of the second. Transactions in foreign investment funds must be operated through representative agents in Switzerland. There have been no major changes to the legislation on investment funds since the last TPR of Switzerland. A revision is under way to align the 1996 Ordinance on Investment Funds and possibly the Federal Act on Investment Funds on the relevant EU rules.

71. The 1997 Legal Assistance Act is aimed at accelerating procedures in connection with assistance in criminal proceedings, subject to mutual legal assistance agreements between Switzerland and the foreign country; Switzerland is a member of the Financial Action Task Force (FATF) on Money Laundering.<sup>64</sup> Under the 1998 Money Laundering Law, banks and non-banking financial institutions (e.g. insurance companies<sup>65</sup>, asset managers, foreign exchange bureaux, lawyers) are required to report suspicious accounts to the police. The judicial authorities may freeze the assets

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<sup>61</sup> The Banking Law, Article 3bis.

<sup>62</sup> The Banking Law, Article 3.

<sup>63</sup> WTO document GATS/SC/83/Suppl.4, 26 February 1998.

<sup>64</sup> The FATF is a body comprising 26 countries and two regional organizations. Its aim is to combat money laundering.

<sup>65</sup> Pursuant to the Act, the Self-Regulatory Organization of the Swiss Insurance Association (SRO-SIA) was established in January 1999 for insurance companies operating in Switzerland.

during the investigation period.<sup>66</sup> Infringers of the obligation to report are liable to a fine of up to Sw F 200,000.

72. In general, direct taxes (like corporate taxes) on financial institutions are relatively low. However, the withholding tax of 35% on interests and dividends is relatively high by international comparison. Partial or full exemptions may be provided under bilateral treaties on double taxation between Switzerland and foreign countries. Profits of joint-stock and co-operative companies are liable to a federal tax of 8.5%. A stamp duty is levied on shares and all security transactions (up to 1% on Swiss shares, and between 0.06% and 0.12% on Swiss bonds); Eurobond transactions and Eurex (the joint Swiss/German derivatives exchange) deliveries are exempted.<sup>67</sup> A turnover tax is levied on transactions of certain securities (0.15% when the issuers are Swiss and 0.3% otherwise).<sup>68</sup> The standard rate of 7.5% of the VAT applies to financial services; with the exception of fortune management, transactions in monetary and capital markets are excluded. All cantons and communes (except for communes of the canton of Basel) impose taxes on net benefits and on capital of co-operative and joint-stock companies. These taxes are progressive (with minimum and maximum rates) and vary from canton to canton. Cantonal tax incentives are available.

#### *Liechtenstein*

73. In Liechtenstein, the development of the banking system has been favoured by its participation in the monetary union with Switzerland and the worldwide confidence in the Swiss franc. Political stability, low levels of taxation, a tradition of bank secrecy, and in recent years, Liechtenstein's membership in the European Economic Area, and the resultant amendment to its banking legislation<sup>69</sup>, have also played their part. Liechtenstein does not have a stock exchange, a highly developed capital market, or a currency of its own. Eleven of the 16 banks operating in Liechtenstein were established after its membership in the EEA. Ten banks are owned by foreigners, seven of which are subsidiaries of Austrian and Swiss banks. At the end of 1999, the combined balance sheet of all banks amounted to Sw F 35 billion. Of the two largest banks, one, the Liechtensteinische Landesbank AG, with total assets of Sw F 12 billion, is currently 68.4% state owned. The other, the LGT Bank AG, with total assets of Sw F 13 billion, is 100% owned by the Foundation of the Prince of Liechtenstein. In 1999, banking employed 1,606 persons, i.e. around 6% of total employment.

74. The Currency Treaty of 19 June 1980 provides the legal basis for the application of the Swiss provisions on monetary policy in Liechtenstein. The Swiss National Bank has the same powers *vis-à-vis* Swiss and Liechtenstein banks and accords them similar treatment. The Liechtenstein banks thus have the same rights to issue bank credits as the Swiss banks. According to the authorities, as a matter of principle, they may refinance with the Swiss National Bank and they have to supply it with statistical data. Under the Treaty, Liechtenstein waives the right to issue its own banknotes; however, it may issue coins in Swiss francs but they may not be legal tender.

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<sup>66</sup> Some Sw F 1.5 billion were blocked temporarily during the year to 31 March 2000.

<sup>67</sup> Annual revenue from the stamp tax exceeds Sw F 2 billion, nearly 5% of total public revenue. The tax is to be abolished by the end of 2002.

<sup>68</sup> Euro-emission and trade in foreign bonds between foreigners.

<sup>69</sup> Licensing criteria were restrictive; they were based on, *inter alia*, local and economic needs.

75. Under the 1992 Law on Banks and Finance Companies, as amended up to 1999<sup>70</sup>, and its Ordinance, a licence is required to establish a bank or a finance company in Liechtenstein. The licence is not subject to reciprocity. The single-licence principle applies to EEA companies.

76. All banks and finance undertakings must be incorporated as limited companies; their head offices and principal management must be domiciled in Liechtenstein. There are no branches of foreign banks in Liechtenstein. The legally required minimum capital is Sw F 10 million. However, the Government deems this minimum insufficient and requires at least Sw F 20 million. Equities and voting rights in the companies that are neither banks nor finance companies (e.g. asset managers, ("Treuhandgesellschaften")), must be more than 50% owned by Liechtenstein or EEA citizens. At least one member of the administrative body authorized to manage and represent the company must be a Liechtenstein or EEA citizen domiciled in Liechtenstein or an EEA member country, be in possession of the relevant professional licence, and work full-time for the juridical person. At least one member of the board of directors and the administrators must be domiciled in Liechtenstein. They must be duly authorized to fully represent their company. The marketing of mutual funds has to be made by banks, fund management companies or trustees having a commercial presence in Liechtenstein. The management of Swiss-franc-denominated issues has to be made through banks with a commercial presence in Liechtenstein. The Financial Services Authority (Amt für Finanzdienstleistungen), formerly called the Office for Banking Supervision, is the supervisory authority for all financial institutions (except insurance companies); it also processes and grants applications for their establishment. The licences for banks are granted by the Government; they are no longer subject to approval by the Parliament.<sup>71</sup>

77. The Financial Services Authority is also vested with supervisory authority to ensure compliance with the 1996 Due Diligence Act. The Act obliges those subject to its provisions (including banks and other financial institutions, lawyers, trustees and other legal agents, but excluding exchange offices) to identify the contractual party and the beneficial owner when entering into business relations (excluding cash transactions of up to Sw F 25,000).<sup>72</sup> Under the Act, a suspicious-transactions-reporting mechanism has been established. In addition to the Act, legislation adopted by Liechtenstein to combat money laundering and organized crime comprises the Law on International Legal Assistance in Criminal Matters, and provisions of the Criminal Code. Various amendments to the legislation are foreseen; they are to be completed in autumn 2000. A Financial Intelligent Unit is to be established to analyse money-laundering reports. In the meantime, Liechtenstein is among the fifteen countries indicated by the Financial Action Task Force on Money Laundering (FATF) as having serious systemic problems.<sup>73</sup> Liechtenstein is not a member of the FATF.

78. Company taxes in Liechtenstein are low by international standards; nevertheless they account for about 30% of public revenue.<sup>74</sup> They comprise: the formation tax of 1% (0.5% on capital exceeding Sw F 5 million and 0.3% on capital exceeding Sw F 10 million) and 2% for foundations, with a minimum of Sw F 200 (collected on capital upon formation of a company and capital

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<sup>70</sup> The Law was amended in 1993 and 1999. The 1993 amendment, *inter alia*, extended the scope of the Act to finance companies and banking groups. The 1999 amendment was made after Liechtenstein's membership in the EEA.

<sup>71</sup> The Government's advisory body on banking issues is the Banking Commission; two of the members of the Commission are Swiss.

<sup>72</sup> According to the Liechtenstein authorities, the level of cash transactions excluded from the identification requirement has been reduced from Sw F 25,000 to Sw F 15,000.

<sup>73</sup> Financial Action Task Force on Money Laundering (2000).

<sup>74</sup> The share is 17.5% if the revenue from company taxes of the municipalities were not taken into account.



increases); the capital and earning (progressive) tax of 7% to 20% (depending on the level of profit) for which companies trading in Liechtenstein are liable; the special company tax of 1‰, minimum Sw F 1,000, on capital and reserves of domicile-establishing and holding companies; the coupon tax of 4% on capital interest coupons; and the stamp duty of 1% on domestic equities, and of 1.5‰ when the issuer is Swiss or Liechtensteiner and 3‰ otherwise on transfers of securities.<sup>75</sup>

(b) Insurance

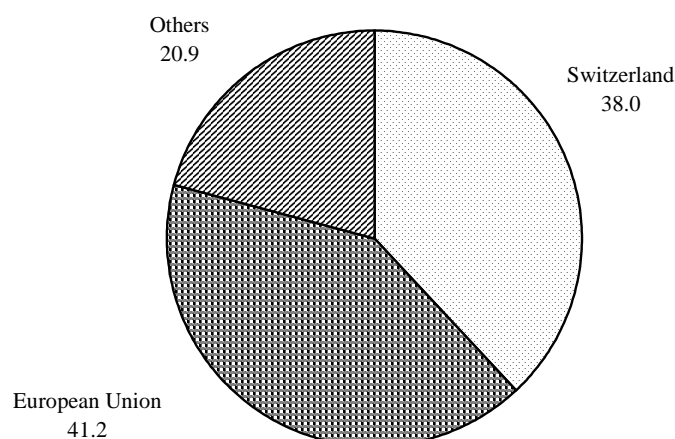
*Switzerland*

79. High per capita expenditure on insurance (US\$4,654 in 1998) makes the Swiss population the most insured in the world.<sup>76</sup> Some 170 insurance companies are operating in Switzerland, 37 of which are foreign owned (mostly with headquarters in the EU) (Chart IV.5b). In 1999, total premium income amounted to some Sw F 126 billion, of which 62% was earned outside Switzerland (Chart IV.7); revenue from life insurance accounted for around two-fifths (Chart IV.8).<sup>77</sup> The insurance branch contributes around 2% to real GDP and employs 65,600 persons, i.e. 1.7% of total employment.<sup>78</sup>

**Chart IV.7**

**Geographical distribution of premium revenue of Swiss private insurers, 1999**

Per cent



**Total revenue: SwF 126.1 billion**

*Source: Swiss Insurance Association.*

80. In order to supply insurance services in Switzerland, foreign-based companies must be incorporated in their home countries as joint-stock companies or mutual associations (as also required

<sup>75</sup> Office of National Economy (1999). In accordance with the Customs Union Treaty, the Swiss law on stamp duties applies in Liechtenstein.

<sup>76</sup> Swiss Re (1999).

<sup>77</sup> There were 159 life-insurance companies in 1996 and 127 in 1998.

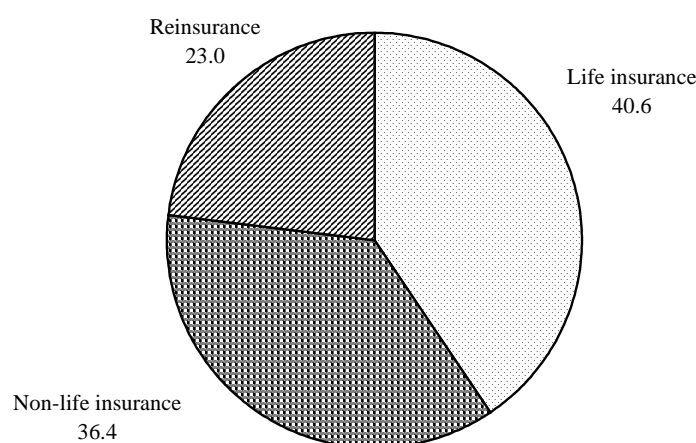
<sup>78</sup> UBS (2000).

from local companies under Swiss law) and have a minimum of three years of experience in insurance business in their home country. The amount of equity capital required is based on the type and expected volume of insurance contracts. The minimum (paid-up) share capital is between Sw F 600,000 and Sw F 10 million for non-life insurance companies; between Sw F 5 million and Sw F 10 million for life insurance companies; and in an indicative order of Sw F 10 million for professional reinsurers. An organization fund of readily convertible assets, equivalent to between 20% and 50% of the paid-up capital, is required to cover possible losses during the first years of business.

#### Chart IV.8

#### World-wide premium revenue of Swiss private insurance companies by type of business, 1999

Per cent



Total revenues: SwF 126.1 billion

Source : Swiss Insurance Association.

81. Fire, natural damage, and insurance against workplace accidents are still under state monopolies (including cantonal monopolies). Cross-border supplies of insurance services are not still possible (Table IV.12a). As a general rule, all risks physically situated in Switzerland must be handled by local companies. Swiss-based insurance companies, as well as branches and agencies of EU-based non-life insurers<sup>79</sup>, are required to maintain sector-specific levels of reserves as guarantees for claims<sup>80</sup>; other insurance companies must deposit part of their assets with the Swiss National Bank.

82. The Federal Office for Private Insurance (FOPI), under the Federal Department of Justice and Police, has general supervisory authority over virtually all companies established under Swiss law and

<sup>79</sup> Under a 1989 agreement between the European Economic Community (EEC) and Switzerland, EEC-based non-life insurance companies may (on a reciprocal basis) establish branches or subsidiaries in Switzerland; life insurance and reinsurance companies are excluded.

<sup>80</sup> See WTO (1996) for details on the levels of reserves required; no changes have since been introduced.

carrying on business in Switzerland.<sup>81</sup> Foreign companies with reinsurance as their only business in Switzerland are exempted. Because of increasing overlap between insurance and banking operations, and to ensure supervision of universal banks largely involved in insurance activities (e.g. Allfinanz, Bancassurance), cooperation among the Swiss financial supervisory authorities, i.e. the SFBC and the FOPI, has been intensified through regular contacts and discussions on matters of common concern.<sup>82</sup>

**Table IV.12**  
**Market access conditions for foreign-based insurance companies, 2000**

Sector	Form of commercial presence	Cross-border supply <sup>a</sup>
<b>(a) Switzerland</b>		
Life insurance	Branch or agency <sup>b</sup>	Not currently possible
Fire and natural damage insurance	Public monopolies in 19 cantons, branch or agency in other cantons	Not currently possible
Workplace accidents (industrial sector)	Federal monopoly	
Other non-life insurance <sup>c</sup>	Branch or agency <sup>b</sup>	Not currently possible
Reinsurance	Unrestricted, with the exception of aircraft liability insurance (commercial presence required)	
<b>(b) Liechtenstein</b>		
Social health insurance	Association, mutual associations, foundations; branch	Not currently possible
Life and non-life insurance	EU rules for EEA and Swiss companies; authorization and branch for other companies	Possible for EEA and Swiss companies; not currently possible for other companies
Reinsurance	Unrestricted	Unrestricted

a Including supply via broker, telephone or mail.

b The head office of the company must be established in a form comparable to a Swiss joint-stock company or a Swiss mutual association.

c Including supplementary private health insurance.

Source: (a) WTO (1996); and information provided by the Swiss authorities.

(b) WTO Secretariat, based on WTO document GATS/SC/83-A, 15 April 1994; and information provided by the Liechtenstein authorities.

83. Premium rates for risks incurred in various categories of compulsory insurance (e.g. third-party cover, life and sickness insurance) are subject to approval by the FOPI to ensure that they remain within the limits set by it. The approval requirement will probably be abolished by 2002. Under the Life Insurance Act, insurance companies must offer a uniform premium within each canton, without consideration of the age of new insured entrants. The insurer can only distinguish three categories of premiums inside the canton and allow reduced premiums to children and young people in education. Under the Act, the Confederation and the cantons subsidize insurance premiums. The financial contribution from the Confederation is allocated to the cantons according to their population, their respective financial capacities, and the amount of the premiums (since 1997). The freedom of choice of an insurer and a type of insurance is ensured by the Act. Since 1 January 1997, all other complementary insurance services have been regulated by private laws under the Insurance Contract Act. The legislation on insurance, including the Law on Life Insurance, the Insurance Contract Act, and the Insurance Supervision Act, is under revision with a view to bringing it into line with recent developments in the insurance market.

<sup>81</sup> The only exceptions are areas where the Federal Department of Justice and Police is legally empowered (authorization to take-up business, to transfer a policy stock among different insurance companies and to initiate an adjudication in bankruptcy, and cancelling of a licence).

<sup>82</sup> Insurance companies are banned from non-insurance business such as banking transactions in the strict sense.

84. A federal tax of 8% on settlements from life insurance or 15% on private annuity insurance is levied on insurance benefits. A stamp duty of 5% applies to insurance premiums; a lower rate of 2.5% is levied in the case of single-premium life insurance with a repurchase option. Insurance services are not liable to VAT.

#### *Liechtenstein*

85. In Liechtenstein, until the end of 1995, insurance services were provided by branches of foreign companies; no insurance company had its head office in the country. After signing the EEA Agreement in 1995, Liechtenstein incorporated the insurance directives of the EU into its national legislation (the Insurance Supervision Law – ISL - and the related Ordinance). Therefore, the single-licence principle applies to Liechtenstein. Accordingly, insurance companies domiciled in EEA member countries have (on a reciprocal basis) free access to the Liechtenstein market and may provide insurance services through branches; this also applies to Swiss insurance companies (on the basis of a bilateral agreement). Insurance companies not having their head office in an EEA member State or in Switzerland must have authorization to take up insurance activities in Liechtenstein. Since early 1996, 13 insurance companies (seven life and three non-life insurance, and three reinsurance companies) have been established in Liechtenstein. With two exceptions, all direct insurance companies are subsidiaries of foreign insurance groups. In 1998, the insurance branch employed 307 persons, i.e. 1.3% of total employment in Liechtenstein; in 1999, total gross premium income amounted to Sw F 242 million, of which 86.8% was from life insurance.

86. Under the 1996 Insurance Supervision Law, a licence is required to establish an insurance undertaking in Liechtenstein. The Government is the supreme supervisory body; it grants, withdraws and revokes licences on the recommendation of the Insurance Supervisory Authority. The Office of National Economy is commissioned as the Liechtenstein Insurance Supervisory Authority (LISA). Except for EEA and Swiss companies, commercial presence is required for the provision of life and non-life insurance services in Liechtenstein; cross-border supply of social health insurance services is not currently possible (Table IV.12b).<sup>83</sup>

87. The minimum share capital required under the ISL is: Sw F 5 million for life insurance and Sw F 5 million to Sw F 10 million for reinsurance companies; and from Sw F 0.5 million to Sw F 1 million (per insurance branch) for non-life insurance companies. In addition, an organization fund of between 20% and 50% of the minimum capital is required. Premiums are freely set by the companies; they are not subject to approval. Liechtenstein imposes a special tax on foreign insurance companies; the rates are 1% on premium receipts from life and old-age insurance and 2% on all other premium receipts. Insurance services are not liable to VAT.

#### **(ii) Telecommunications and postal services**

##### *Switzerland*

88. With 68 access lines per 100 inhabitants<sup>84</sup>, Switzerland has one of the highest telephone densities in the world. By the end of 1999, the number of cellular users was around 3 million, i.e. a penetration ratio of some 42%; around 20% of the population had an internet connection.

89. Except for terminal and data services via radiocommunication networks and leased lines, supply of telecommunications and postal services in Switzerland remained under state monopoly until the end of 1997 (operated by the Swiss Postal, Telecommunications and Telegraph Administration

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<sup>83</sup> WTO document GATS/SC/83-A, 15 April 1994.

<sup>84</sup> The Economist (2000).

known as PTT).<sup>85</sup> On 1 January 1998, the Telecommunication Law adopted on 30 April 1997 entered into force, and PTT was split into Swiss Post (in charge of postal services) and Telecom PTT (for telecommunications services). In October 1998, Telecom PTT was transformed into a stock corporation called Swisscom AG: the Swiss Confederation remains the majority shareholder with 65.5% of the capital, and the quoted shares make up the balance.

90. The aim of the 1997 Law is to ensure the availability of cost-effective and high-quality competitive telecommunications services to the Swiss population (private individuals and the business community). The Law provides for, *inter alia*, the upholding of reliable universal services at affordable prices<sup>86</sup>, and full liberalization of all basic telecommunications services. Accordingly, state monopolies over terminal equipment and voice telephony markets, and over the provision of value-added and infrastructure services (e.g. network) were abolished.

91. The provision of telecommunications services and the utilization of radiocommunication frequencies are subject to licences. The number of licences granted may be limited only for technical reasons (e.g. radiocommunication frequencies). However, subject to international obligations and in the absence of reciprocity, the licence may not be granted to enterprises incorporated under foreign law. The licensing body is either the Communications Commission (ComCom) or the Federal Office for Communications (OFCOM). ComCom, a new regulatory authority independent of the Government, grants those licences allocated by public tendering, e.g. licences for supply of universal services, and mobile telephone and certain radio services. It also rules on interconnection disputes and approves frequency and numbering plans. OFCOM also grants radio licences that do not involve any telecommunications services (e.g. company radio and amateur radio licences) and licences to providers of fixed network services (not subject to tendering procedures). Registration with OFCOM is compulsory for the supply of all telecommunications services in Switzerland.

92. Providers of telecommunications services are required to ensure portability of numbers and freedom of choice in the selection of suppliers of national and international connections. Location portability is not compulsory; it is restricted to each regional (code) area. Providers of telecommunications services that have a dominant market position (including suppliers of part of the universal services) must agree to provide interconnection to other suppliers without discrimination and in accordance with transparent and cost-related principles. As from 1 January 2000, interconnection prices are fixed on the basis of the "long-run incremental costs" (LRIC) method applied by most European countries. Suppliers interested in concluding an interconnection contract must first negotiate the terms (the principle of primacy of negotiations applies). If, after a three-month period, the negotiations are unsuccessful, the parties may then appeal to ComCom, which, on the basis of OFCOM's recommendations, will settle the dispute and fix the conditions for the interconnection.<sup>87</sup>

93. The Federal Council fixes upper limits for prices of telephone connection to users, and national calls. It also determines the minimum quality criteria that the universal service provider must fulfil. The prices of non-universal services are market-determined. For a transitional period of five years, i.e. until the end of 2002, the incumbent supplier of universal services is Swisscom. After

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<sup>85</sup> See WTO document G/IT/10, 11 April 2000 and WTO (1996) for details on the evolution of this sector.

<sup>86</sup> Universal services mean basic services to be provided throughout the country and comprise: public telephony (connection and transmission of speeches and data); access to emergency call services and localization of these calls; an adequate network of public telephone kiosks; access to directories of subscribers in Switzerland; and special services for the hard of hearing and visually impaired.

<sup>87</sup> Two cases related to interconnection prices (conciliation negotiations), submitted in summer 1998 by Sunrise and DiAx, were settled in January 1999. Other cases related to interconnection have since been initiated and are being investigated by OFCOM.

2002, the award of the licence(s) for universal services will periodically be subject to open tendering (the cycle has not yet been determined). In order to finance uncovered costs of universal services, ComCom may charge a licence fee on other telecommunications services. According to the authorities, the fee has not so far been charged. Cross-subsidization of telecommunications services is not legally prohibited.

94. Since the liberalization of the telecommunication market, more than 260 suppliers have been registered with OFCOM (111 with licences). The reforms have increased competition and brought down the Swiss prices for international calls below the OECD average; the prices for local calls remain relatively high by international comparison.<sup>88</sup> For international and national telephone calls over the fixed network, the new telecommunications service providers offer prices that undercut the corresponding 1997 prices of Telecom PTT by between 40% and 60% on average. Despite the dominant position of Swisscom in local calls, consumers can still obtain more favourable services from its competitors in this market. In the mobile telephone market, the pressure on Swisscom (77% of the market at end 1999) from the new providers, DiAx (14%) and Orange (8%), has led to price reductions and a wider range of services. Competition among internet service providers is also intensifying; many providers have moved to offer internet access free of charge subject to certain conditions. Internet access and telephony are increasingly being offered as a package subject to special conditions. Continual market growth in mobile radio, a shift in voice communication from the fixed to the mobile network, and increasing use of the internet for private and business purposes are also expected. This development will be accompanied by further falls in prices. On the local loop side, due to the granting of radio licences for the wireless local loop (WLL), and the use of cable TV and main power networks for the transmission of telecommunications services, competition is expected to increase.

95. The reforms ended cross-subsidization between profitable telecommunications services and poor-performing postal activities. However, except for courier services and newspaper distribution, Swiss Post, fully owned and controlled by the Confederation, still exercises exclusive rights over virtually all postal services.

#### *Liechtenstein*

96. Under a bilateral treaty between Switzerland and Liechtenstein, the Swiss PTT had provided telecommunications services in Liechtenstein for more than 75 years. The Swiss PTT also carried out the installation and operation of the telecommunications network at Liechtenstein's expense. Swiss legislation on telecommunications also applied to Liechtenstein, which had been an integral part of the Swiss telecommunication system. Liechtenstein's membership in the EEA, as of 1995, required significant amendments to the treaty, which was terminated on 31 March 1999. Postal services are currently supplied by the Liechtenstein Post AG, a fully state-owned company with exclusive rights over letters and direct mailing (Table AIII.5).<sup>89</sup>

97. In preparation for the separation of the Liechtenstein telecommunications network from that of Switzerland, Liechtenstein enacted its own Telecommunication Law (TelG) on 20 June 1996, and an Ordinance on individual licensing for the provision of telecommunications services in June 1998. A National Telecommunication Policy was formulated in July 1997, and Liechtenstein TeleNet AG (LTN) was established in 1998 as a fully state-owned company to which the management of the national public telephone network was transferred. Liechtenstein introduced its own country code in April 1999.

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<sup>88</sup> OECD (1999).

<sup>89</sup> The services were supplied by the Swiss PTT under the 1921 Postal Treaty between Switzerland and Liechtenstein (Press and Information Office of the Principality of Liechtenstein, 1998).

98. The supply of telecommunications services in Liechtenstein is subject to either an individual or a general licence.<sup>90</sup> With the exception of the basic services, and of certain types of services and equipment for which an individual licence is currently required<sup>91</sup>, the supply of all other services is subject to a general licence. In cases of innovative services and equipment, the provider must notify the licensing authority before it starts operating. Unless there are good reasons not to allow the supplier to go forward, provisional conditions will then be applied and confirmed in a general licence, or a recommendation will be made to expand the individual licensing obligation, if consistent with the relevant EEA law. The Liechtenstein Office for Communications is the national regulatory authority. It processes applications for both individual and general licences; customers' contracts related to the provision of basic telecommunications services are also subject to its approval. The licences are granted by the Government; the licence for the supply of basic telecommunications services is granted for five years (renewable). Other individual licences are granted for an undefined period, subject to conformity with the relevant licence conditions. In principle, in areas where the number of licences is limited by the Government for technical reasons, public tendering is required for their allocation.

99. In addition to its network management (operation and maintenance) licence, the responsibility for network planning has also been transferred to LTN. LTN is required to make its infrastructure available to other licensees in a neutral, non-discriminatory, and cost-based manner<sup>92</sup>; it is to be privatized by 2001. A fully Swisscom-owned Liechtenstein legal subsidiary, Telecom FL AG, has been granted two licences for the supply of local and international basic telecommunications services. Telecom FL AG has also been awarded a licence to provide international public voice telephony services, as well as a continuity licence covering all other telecommunications services formerly provided by Swisscom.<sup>93</sup> Eight additional licences are granted to other companies for the supply of local and/or international voice telephony services; only one of them is operating so far. Owing to limited availability of frequency resources, the Liechtenstein Government has limited the maximum number of mobile telephone (GSM) service suppliers to four; three companies (including Telecom FL AG) are in operation. According to the Liechtenstein authorities, all *de jure* exclusive rights previously conferred to telecommunications companies operating in Liechtenstein have been abolished.

100. Interconnection regulations are based on the relevant EU principles. The prices of services supplied by Telecom FL AG are pegged to those of Swisscom: they are equivalent to 105% of the Swisscom prices (i.e. 5% higher) in the area of telecommunications services outside the scope of basic services (continuity services). Uncovered costs of non-profitable activities required under the licence contract for the supply of continuity services may, in cases defined in Article 66a of the Telecommunications Law, be supported by the Liechtenstein Government. According to the authorities, this situation has not so far occurred.

101. The annual turnover of telecommunications services is currently around Sw F 55 million. The total revenue from sales of postage stamps (mainly to tourists) represented 3% of the national income in 1997.<sup>94</sup>

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<sup>90</sup> The licensing regime for the provision of the basic services, based on a set of individual licences, entered into force on 1 January 1999.

<sup>91</sup> The current scope of individual licensing obligations is to be reduced before the end of 2000.

<sup>92</sup> LTN also provides certain non-basic telecommunications services to licensed retail entities.

<sup>93</sup> The scope of the continuity licence is to be reduced upon entry of new suppliers in the market and the emergence of competition in the area concerned.

<sup>94</sup> Press and Information Office of the Principality of Liechtenstein (1998).

(iii) **Transport**

102. In Switzerland, air and overland transport (including rail) is well developed. Maritime transport is limited to inland waterways such as the Rhine and canals. Liechtenstein has neither an airport (except for helicopters), nor a rail company. In both Switzerland and Liechtenstein, the VAT applies to transportation services at the standard rate of 7.5%.

103. Switzerland has concluded bilateral agreements with neighbouring countries (including France, Germany, and Italy) for cooperation in rail transport (connections and access to high-speed rail networks). Subject to ratification by the EU Member States, the bilateral agreement between Switzerland and the EU on civil aviation and land transport will enter into force on 1 January 2001 at the earliest. The agreement on land transport does not allow road cabotage. The agreement on civil aviation provides for gradual liberalization of commercial flying rights and prohibits discrimination between Swiss and EU air companies. The land transport agreement will replace existing bilateral agreements between Switzerland and individual EU member countries for market access in the area of road transport and road transit traffic (with the exception of transit across Austria).<sup>95</sup> The agreement will be implemented gradually and will favour the transfer of freight traffic from road to railways. Accordingly, the current transit tax of Sw F 40 collected by Switzerland on trucks weighting 28 tonnes or more will be increased (Chapter II(5)(ii)).

(a) **Air transport**

*Switzerland*

104. Switzerland has three main international airports, at Zurich (the principal airport with almost two thirds of air traffic), Geneva, and Basel-Mulhouse, and ten regional airports. SAirGroup, a holding company, is the major supplier of air transport services and has a dominant position in the civil aviation market. SAirGroup comprises, *inter alia*: SAirLines (for international, regional, and domestic air transport services); SAirLogistics (warehouse management and physical cargo handling); SAirServices (aircraft maintenance and global customer services); SAirRelations (travellers services); Flightlease (leasing); and three international finance companies. SAirGroup holds shares in, and collaborates with, several foreign companies. Each of SAirGroup's branches consists of several companies. For instance, SAirLines comprises Swissair, Crossair, and Balair/CTA; it also holds shares in other companies.<sup>96</sup> At the end of 1999, SAirGroup employed nearly 20,000 persons in Switzerland. It was 18.3% owned by the Swiss Confederation, the cantons, communes, and cantonal banks; 16.8% by foreigners; and the balance by Swiss nationals (including banks and insurance companies). SAirGroup's total turnover increased by 7% to some Sw F 11.3 billion in 1998. Following a stagnation in the early 1990s, the total number of passengers in the Swiss airports has been rising since 1994. In 1998, nearly 60% of some 30 million passengers through these airports travelled with SAirLines companies.<sup>97</sup> Swissair, the national flag carrier, has a market share of around 45% for passengers on scheduled flights and about 0.6% on charter flights.

105. The supply of air transport services in Switzerland (including through commercial presence) is subject to a licence. The licence is granted for five years, renewable. Foreign participation in Swiss air-transport companies is subject to bilateral or multilateral agreements; foreign shares must not exceed 49.9% of the capital. International traffic rights for passengers and freight are also governed by bilateral agreements (i.e. contingent upon reciprocity); the related licence is granted for

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<sup>95</sup> Switzerland has concluded bilateral agreements on road transport with some 40 countries, including EU Member States (WTO document GATS/SC/83, 15 April 1994).

<sup>96</sup> SAirGroup (1999).

<sup>97</sup> Federal Office for Civil Aviation (1999).



eight years, renewable. The registration of aircraft is subject to national ownership and management requirements.<sup>98</sup> Under the authority of the Federal Department of Environment, Transport, Energy and Communications, the Federal Office for Civil Aviation (FOCA) is the regulatory body: its responsibilities include drafting legislation (including Swiss comments on international agreements), and implementing and enforcing policies (including licensing and registration) on civil aviation.

106. The 1998 amendment to the 1948 Law on Civil Aviation repealed the monopoly of Swissair over most international traffic from Switzerland.<sup>99</sup> However, Swissair's monopoly traffic rights over destinations for which it is actually operating (e.g. Barcelona) will be protected until expiry in 2008.<sup>100</sup> As from 2001, a public company (Swisscontrol) and the Swiss Air Force, which currently provide air traffic services within Swiss airspace for civil and military air traffic, respectively, are to be merged into a new public company in order to improve efficiency in air traffic control; it will be majority-owned by the State. Swiss airports are owned and managed by the cantons.<sup>101</sup> The allocation of slots is generally based on "grandfather" rights. Airlines with passenger traffic shares exceeding 4.5% in Geneva and 1.5% in Zurich are allowed to provide their own ground-handling (including check-in); supply of these services to third parties is not allowed. This regulation does not apply to cargo planes.

107. The pricing system was revised in 1998 and enforced as from 1 January 1999. All tariffs must be submitted to the FOCA at least one day before the proposed effective date.<sup>102</sup> The FOCA rejects, *inter alia*: "unreasonably discriminatory" tariffs or practices; "unreasonably high or restrictive" tariffs due to the abuse of a dominant position; and "artificially low tariffs" due to government subsidies or support.<sup>103</sup> In general, fares for incoming traffic are often approved while special fares (more than 25% lower than the normal economy class return ticket) for outgoing flights that may lead to traffic diversion may be rejected.<sup>104</sup> No reply from the FOCA within seven working days after the notification of tariffs means that the latter have been approved. Moreover, under bilateral or multilateral agreements to which Switzerland is a signatory, most fares must be approved by the FOCA and the competent authority in the foreign country.

#### *Liechtenstein*

108. Liechtenstein does not have its own legislation on civil aviation. Under a bilateral agreement concluded in January 1950, Swiss legislation on civil aviation applies to Liechtenstein. The bilateral agreement between the EU and Switzerland and the obligation to comply with the EEA legislation were among the reasons for the renewal of the Swiss-Liechtenstein bilateral agreement and also for the establishment of basic Liechtenstein legislation in the field of civil aviation.<sup>105</sup>

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<sup>98</sup> See WTO (1996), and the 1973 Ordinance on Aviation as modified up to 1998, for details.

<sup>99</sup> The revised Law encourages "multiple designation" type bilateral and multilateral agreements (Article 30 (4)).

<sup>100</sup> The 1948 Law on Civil Aviation as revised up to 1998 (Transitional Provisions); and Conseil Fédéral Suisse (1997).

<sup>101</sup> WTO (1996).

<sup>102</sup> Companies that are granted international traffic rights must inform the FOCA of their schedules and tariffs.

<sup>103</sup> The assessment criteria used by the FOCA are based on EU Regulation 2409/92.

<sup>104</sup> See WTO (1996) for details.

<sup>105</sup> The transitional period for Liechtenstein to comply with the EEA rules in civil aviation will expire on 31 December 2001, after a review has taken place.

(b) Overland transport

*Switzerland*

109. Switzerland has an overall road network of some 71,000 km, of which about 1,600 km of "national routes"; and a rail network of 5,041 km, of which about 3,007 km are owned by the Swiss Federal Railways (SBB), a State-owned company, and 2,034 km by regional companies. Total road freight has remained relatively stable (at around 330 million tonnes) during the last four years. Environmental considerations have favoured rail freight, which was 57 million tonnes in 1999 (about 40% of total tonne-kilometre freight transport); around four fifths of the total revenue from rail freight is earned by the SBB. Passenger transport accounts for nearly two thirds of total revenue from overland transport.

110. In 1999, the SBB was transformed into a joint-stock company and was granted more management powers; it sets prices for rail freight. However, the SBB is still fully owned by the Confederation and therefore remains under the supervision of the Federal Council. The rail network has been opened to all rail companies, mainly for merchandise transport, against payment. The SBB still holds exclusive rights over regular passenger transport (along the main railways). Indeed, the SBB is assigned specified basic tasks by the Federal Council (e.g. regular supply of basic rail transport services throughout the country). The Swiss Confederation and cantons also provide financial assistance to suppliers of rail transport services (for services ordered by the public authorities); the contributions finance specified uncovered costs as well as costs related to natural damage.

111. A licence and a security certificate are required to provide rail passenger and freight transport services. The licence is subject to the proof of the need for the undertaking and of the absence of other means of transport that could handle the service in a more ecological, economic, and reasonable way<sup>106</sup>; it is granted for a period of up to ten years, renewable. For foreign companies, the licence is subject to reciprocity under international or bilateral agreements. The licence fee ranges from Sw F 500 to Sw F 2,000 and the fee for safety certificates ranges from Sw F 300 to Sw F 5,000. The Federal Office for Transport is the regulatory body for public transport; it grants licences, issues security certificates, and the pricing principle for access by companies to the rail network and for passenger transport by rail. As of end 1997, regional rail companies, which were generally owned by cantons, had been granted 52 licences.

112. The supply of international road transport services (passenger and freight), as well as transit traffic in Switzerland is also subject to reciprocity under bilateral or multilateral agreements. Public transport services are provided by cantonal companies and the Swiss Post. The latter also supplied the services to Liechtenstein until 1999.<sup>107</sup> Financial assistance by the Swiss Confederation to suppliers of public transport services amounted to Sw F 3.8 billion in 1999 (Chapter III(4)(i)).

*Liechtenstein*

113. As a consequence of Liechtenstein's membership in the EEA, a state-owned company, the "Liechtenstein Bus Anstalt" has taken over the business. The eleven Liechtenstein communes are integrated into the bus network<sup>108</sup>; the Swiss half-fare general season tickets are valid on the Liechtenstein bus network. The Liechtenstein Government provides financial assistance of

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<sup>106</sup> WTO document GATS/SC/83, 15 April 1994.

<sup>107</sup> The services were supplied under the postal and telecommunications services (PTT) treaty between Switzerland and Liechtenstein, which was repealed in 1999.

<sup>108</sup> Office of National Economy (1999).

Sw F 12 million per year for public transport. Liechtenstein has 250 km of highways and 18.5 km of railways. The railway track is owned and operated by the Austrian Federal Railways.

114. International transport services for goods and passengers are supplied by private companies. Carriers for road freight and passengers transport need a permit issued by the Office of National Economy. The permit is granted if certain criteria relating to, *inter alia*, reliability, financial standing qualification or business establishment are met. In addition, for international transport in the EEA, carriers need a special licence issued by the Office of Customs Affairs. Bilateral agreements, concluded by Liechtenstein with Austria and France, provide for quotas on road transport of goods to third countries. The agreement with France is applied on a provisional basis; it has not so far been ratified.

**(iv) Tourism**

*Switzerland*

115. With 28,300 hotels and restaurants, the tourism branch of the Swiss economy contributes around 10% to the total value of Swiss exports of goods and services; it is the third source of foreign exchange earnings after metalworking and machinery, and chemicals. The branch employs some 243,100 persons, i.e. 6.3% of total employment.<sup>109</sup> With over 10 million visitors in 1998, Switzerland ranked 17<sup>th</sup> in the world as a tourist destination.<sup>110</sup> In 1997, Swiss nationals represented some 48% of the visitors (Chart IV.9). Business tourism (including meetings organized by the international organizations hosted by Switzerland, generally held during the summer), is a major component of the branch. Switzerland also has a worldwide reputation as a skiing centre. Lakes and their resorts are among the other principal tourist attractions. Some 2,100 travel agencies (900 sales offices run by tour operators and 1,200 independent agencies) with total sales estimated at Sw F 10 billion handle around one third of all travel arrangements.<sup>111</sup>

116. High prices of inputs from highly protected sectors such as agriculture (mainly food products), construction, energy and telecommunications (at least up to 1998), and high wages, as well as the remaining restrictions on the acquisition of real estate, have negatively affected the development of the tourism branch and delayed its recovery from the early 1990s crisis (Chart IV.10). For instance, restaurants have been performing poorly since the slump, and the Swiss hotel business has been recovering slowly since 1997. The average occupancy rate of available beds is still low (about 40% in 1999). Reflecting the increasing share of business tourism (traditional tourism having declined), hotels have the largest share of overnight stays (47%), followed by apartments and private rooms (30%), camping and caravanning (11%), collective tourist accommodation (10%), treatment establishment (2%), and youth hostel (1%). As a result of the lasting crisis in the tourism branch and the related investment risk, interest rates on loans for investment in the branch have generally increased.

117. Federal legislation enables cantons to grant licences for the supply of restaurant services. Based on economic needs, the licensing criteria include: the population density, the neighbourhood and the degree of built-up area; tourist attractions; and the number of existing restaurants. Commercial presence in Switzerland is required for the supply of hotel and restaurant (including catering) services. The applicant may also be required to have his residence in the canton where the business is to be established and to take an examination. In addition, other specific requirements apply to the supply of tourist guides services (mainly mountain guides or ski instructors): for

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<sup>109</sup> UBS (2000).

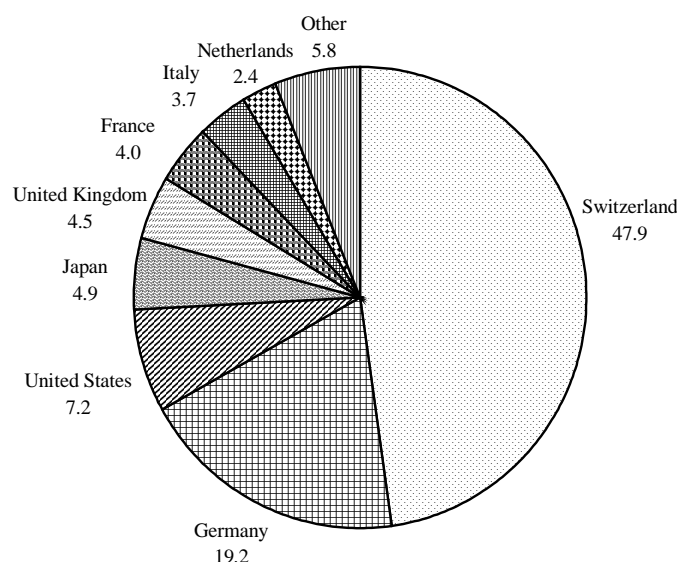
<sup>110</sup> EIU (1999).

<sup>111</sup> UBS (2000).

instance, in certain cantons, the required tests are not open to foreigners; in others, foreigners cannot operate independently.<sup>112</sup>

**Chart IV.9**  
**Geographical distribution of tourists, Switzerland, 1997**

Per cent



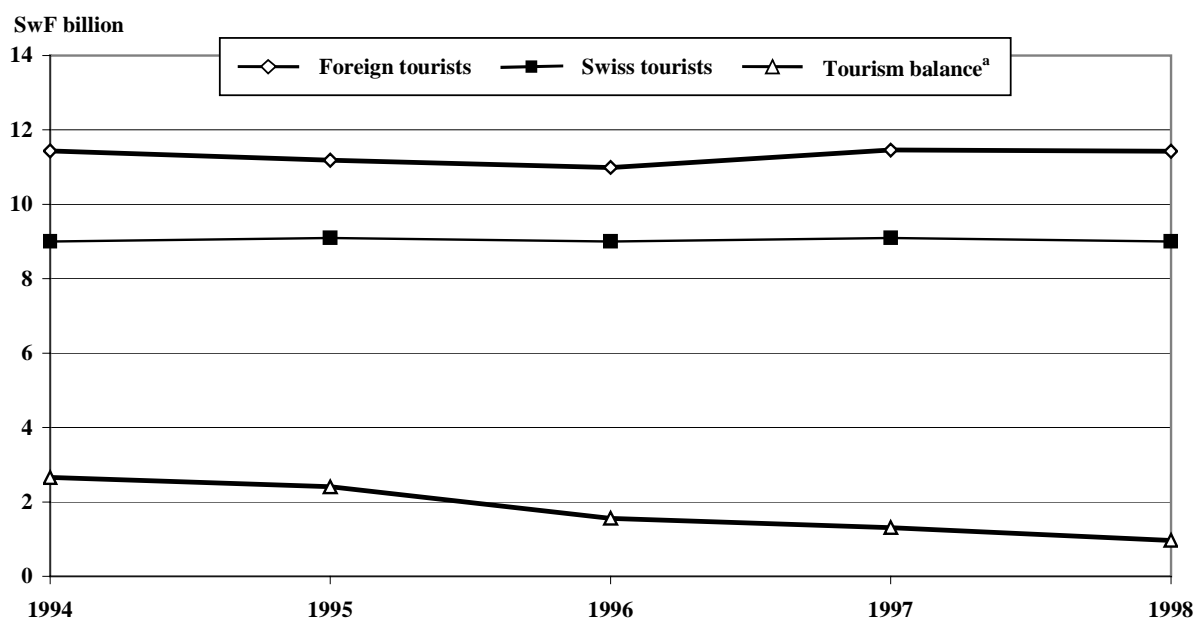
Source: Swiss Federal Office for Statistics.

118. At the beginning of 2000, 25 Swiss towns launched an association named Swisscities to promote tourism, both in Switzerland and abroad, and to counter the image of Switzerland as an expensive destination. An agency of the State Secretariat for Economic Affairs (SECO) is in charge of research and development in the tourism branch; it is also a policy implementation body. Two other public corporations, Swiss Tourism (responsible for communication and marketing) and the Swiss Corporation for Hotel Credit (Société suisse de crédit hôtelier), as well as a Consultative Commission, were established to contribute to the development of the branch. The Swiss Corporation for Hotel Credit has a working capital of SwF 118 million; it provides concessional loans (with subsidized interest rates at 2 percentage points below the normal rates) and credit guarantees to small and medium-sized companies investing in tourist areas. The Confederation allocated a credit of Sw F 18 million for the period 1997-01 (i.e. Sw F 3.6 million per year on average) to finance innovation and cooperation between tourism operators.<sup>113</sup> Prices are freely set by the companies that operate in the tourism branch.

<sup>112</sup> WTO document GATS/SC/83, 15 April 1994.

<sup>113</sup> Arrêté fédéral finançant l'encouragement de l'innovation et de la coopération dans le domaine du tourisme de 1997 à 2001, 10 octobre 1997, Article 8. The annual allowance of Sw F 8 million, formerly granted by the Confederation to hotels and inns, was abolished in 1998.

**Chart IV.10**  
**Tourism receipts, Switzerland, 1994-98**



a Expenditure by non-Swiss visitors in Switzerland minus expenditure by Swiss travellers abroad.

Source: Federal Department of Economic Affairs, *La Vie économique*; Federal Statistics Office, *La Balance touristique en Suisse de 1998*.

### Liechtenstein

119. In Liechtenstein, the tourism branch has been performing poorly since the mid 1980s: a downward trend has been recorded in the number of visitors, hotels and guest houses, available beds, and overnight stays. The number of arrivals declined from 77,735 in 1990 to 60,463 in 1998; overnight stays fell from 149,861 to 123,252; available beds from 1,411 to 1,327; and hotels and guest houses from 60 to 52.<sup>114</sup> The number of overnight stays in the 51 establishments offering holiday apartments was 27,061 in 1998, up from 25,333 in 1996 despite a reduction in their overall capacity from 323 to 256 beds.<sup>115</sup> In 1998, hotels, guests houses, holiday apartments, and restaurants in Liechtenstein employed 726 persons, i.e. 3% of total employment. The poor performance of the tourism branch has resulted from the relatively low standard of the hotels and other tourism facilities (few of them are modern), increasing competition from cheaper destinations, and limited promotion activities. The appreciation of the Swiss franc in the early 1990s also played a part. Most visitors come from neighbouring countries (Chart IV.11).

120. The Liechtenstein Government provides financial support of some Sw F 500,000 per year (on average) for marketing activities. Liechtenstein Tourism, a newly created public entity, is in charge of marketing activities.<sup>116</sup> Certain marketing activities are coordinated with Swiss tourism associations. Except for differences in rules governing acquisition of real estate, Liechtenstein's

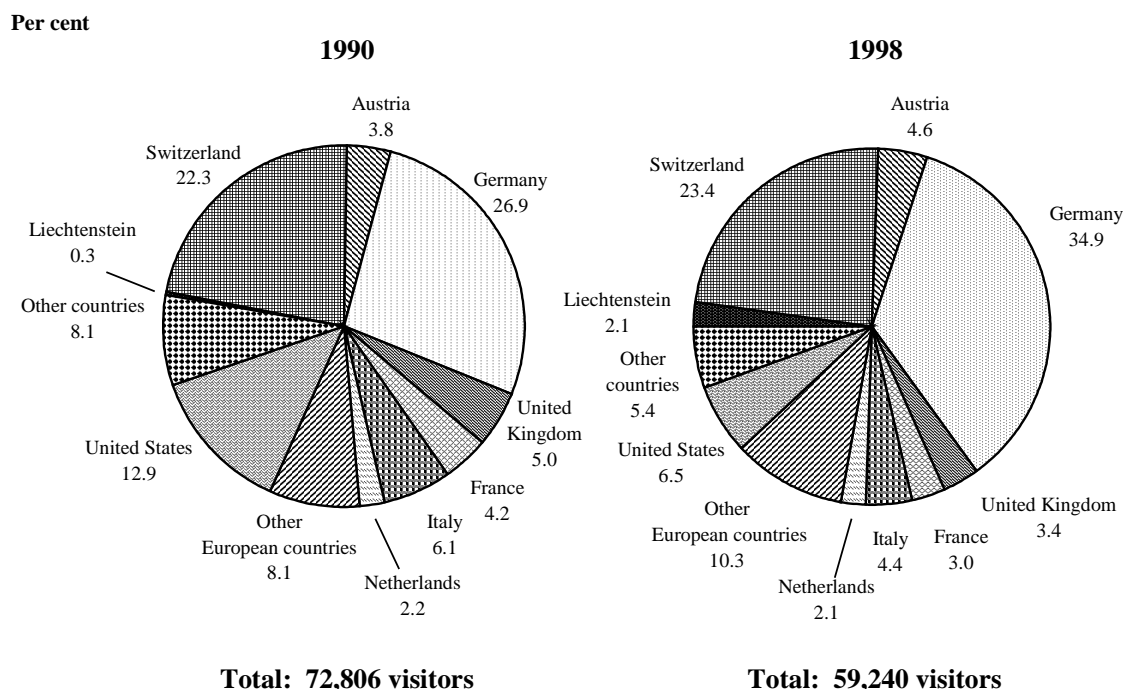
<sup>114</sup> There are currently 60 hotels and guest houses.

<sup>115</sup> Office of National Economy (1999).

<sup>116</sup> Liechtenstein Tourism was created under a law that entered into force on 1 September 2000.

regulations in the tourism branch are similar to those in Switzerland. Prices are freely set by companies operating in the branch.

**Chart IV.11**  
**Geographical distribution of tourists, Liechtenstein, 1990 and 1998**



Source: Government of Liechtenstein (1999), *Statistisches Jahrbuch*.

## (v) Construction

### Switzerland

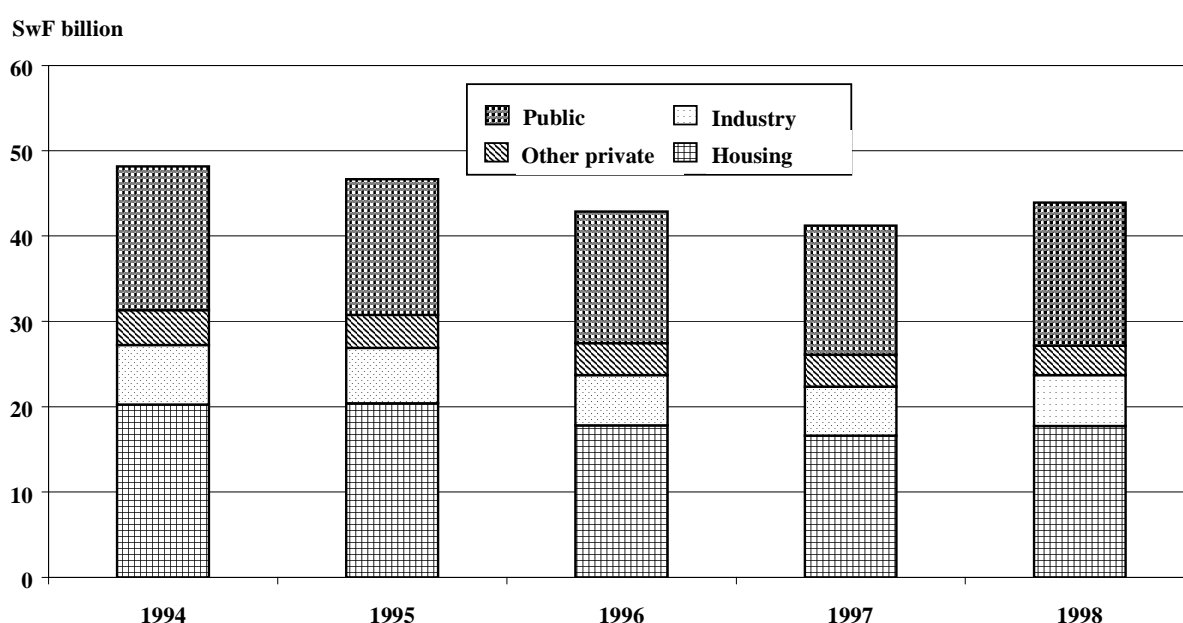
121. The economic crisis of the early 1990s negatively affected the construction branch of the Swiss economy. House-building, and commercial and industrial construction were the most affected. The continual increase in vacant business properties in major cities such as Zurich and Geneva until 1998, and the vacancy rate for private homes, which reached 1.66% in 1999 (the highest since the 1970s) have deterred new construction. Employment in the branch fell from 327,000 workers in 1993 to 298,200 (i.e. 7.7% of total employment) in 1999.<sup>117</sup> Fluctuations in construction activities have generally resulted from interest rate changes. However, the sharp decline in recent years was also a consequence of productivity gains that resulted from an increase in investment in streamlining processes.

<sup>117</sup> UBS (2000).

122. The structure of the branch has also been affected, with an increasing share of the cost of civil engineering in total expenditure on construction. The development of civil engineering will be sustained by the realization of large-scale infrastructure projects such as the new transalpine railways, Rail 2000, noise abatement measures, and high-speed connections.<sup>118</sup> In general, public investment in construction has remained above 10% of the federal budget; it represented nearly 13% of total federal outlays in 1998 and 11% of the 1999 budget. This relative stability helped to contain the decline in public expenditure on construction between 1994 and 1998 (Chart IV.12).

**Chart IV.12**

**Construction spending by sector, Switzerland, 1994-98**



Source: Swiss National Bank, *Statistisches Monatsheft*.

123. As one of the most densely populated countries in the world, Switzerland strictly regulates land utilization through building and zoning prescriptions (e.g. land utilization ratios, minimum size of rooms, ratio of windows to ground surface, insulation, floor heights, and availability of bomb shelter) with a view to ensuring optimum use of its surface area. Under the "Lex Friedrich", acquisition of real estate by foreigners not permanently established in Switzerland and by companies with headquarters abroad and/or under foreign control is subject to prior approval by both cantonal and federal authorities.<sup>119</sup> The requirement also applies to long-term lease or rental contracts with far-reaching provisions, as well as to the financing of real estate companies. Purely financial investments in the branch and in real estate business operations are still prohibited. The amendment to "Lex Friedrich" has abolished the permit requirement for the acquisition of: land or premises used for the setting-up of a business or for capital investment; a stake in a real estate company engaged in trading in such properties; and a principal residence by foreigners with residence permits.

124. The federal authorities determine annual global quotas of work permits for foreign employees. Swiss nationality is required for the surveying of engineering activities in the public

<sup>118</sup> UBS (2000).

<sup>119</sup> Loi fédérale sur l'acquisition d'immeubles par des personnes à l'étranger, Articles 13, 15 and 16.

sector; however, foreign surveyors can work under the responsibility of a licensed Swiss surveyor.<sup>120</sup> Certain requirements remain canton-specific: for instance, three years of prior professional experience in Switzerland are required before offering architectural or building-engineering services in the canton of Lucerne. The Swiss Society of Engineers and Architects (SIA), a member of the Swiss Association for Standardization, initiates standards for the construction branch. As from 1 January 1996, the wages in the branch are negotiated between employers and employees; the wages set by the SIA have been used as references.

125. Stringent building regulations (including standards on construction products), the lack of competition (at least until the adoption of Intercantonal Concordat and the Federal Law on Internal Market (Chapter III(2)(ix))), bureaucracy, and the lack of fiscal incentives (among others) have contributed to maintaining construction costs high by international comparison<sup>121</sup>: construction costs are up to one third higher than the OECD average. The resultant high prices have meant that less than one third of the Swiss population own their own homes (among the lowest levels in Europe).<sup>122</sup>

#### *Liechtenstein*

126. In Liechtenstein too, house-building, and commercial and industrial construction were the most affected by the early 1990s crisis (Chart IV.13). The construction branch employed 1,922 persons in 1998, i.e. about 8% of total employment.<sup>123</sup> Non-residents are excluded from acquisition of real estate in Liechtenstein. All acquisitions of real estate are subject to authorization, which is granted only after a minimum of ten years of residence or presence in Liechtenstein<sup>124</sup>; applicants must prove that the acquisition is required for living or business purposes. Liechtenstein nationality is required for conducting engineering services as a surveyor of activities in the public sector; however, foreign surveyors can work under the responsibility of a Liechtenstein surveyor.<sup>125</sup>

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<sup>120</sup> WTO document GATS/SC/83, 15 April 1994.

<sup>121</sup> See WTO (1996) for details on restrictive arrangements and other anti-competitive practices that have affected the branch, as well as on lengthy approval procedures for infrastructure projects and special permits for installation works.

<sup>122</sup> EIU (1999).

<sup>123</sup> Office of National Economy (1999).

<sup>124</sup> The regulation does not apply to natural persons with Liechtenstein citizenship or from an EEA member State. Legal persons must have their head office in Liechtenstein or in an EEA member State.

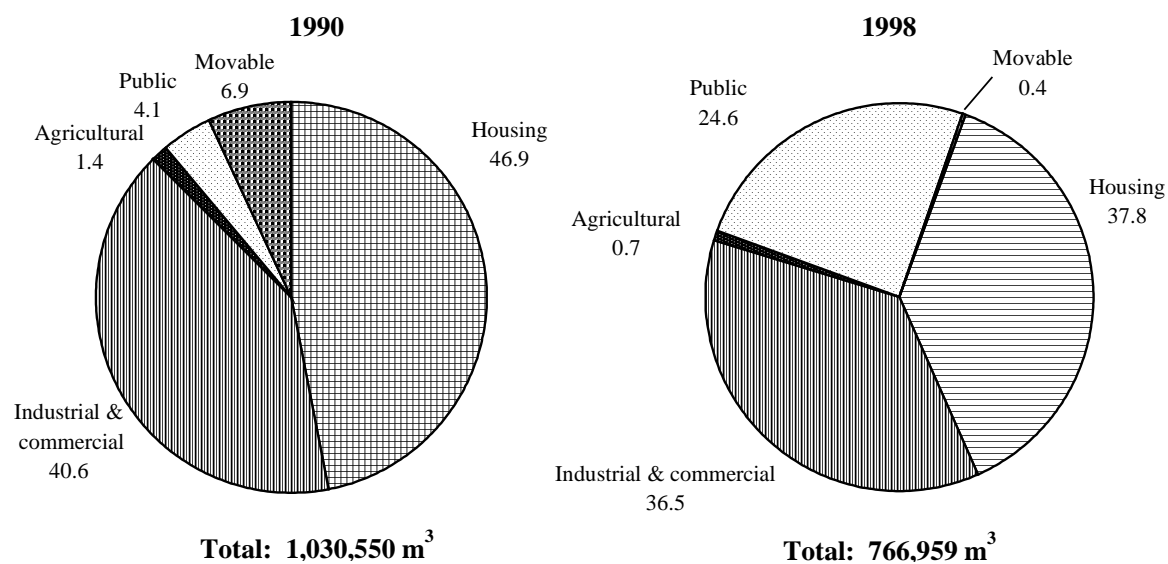
<sup>125</sup> WTO document GATS/SC/83-A, 15 April 1994.



### Chart IV.13

#### Construction volume by sector<sup>a</sup>, Liechtenstein, 1990 and 1998

Per cent



<sup>a</sup> On the basis of data on construction permits. Sometimes, construction activities start more than two years after the grant of the permit.

Source: Government of Liechtenstein (1999), *Statistisches Jahrbuch*.



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