

# GENERAL AGREEMENT ON

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COUNCIL

25-26 September 1991

### TRADE POLICY REVIEW MECHANISM

#### SWITZERLAND

#### MINUTES OF MEETING

Chairman: Mr. Lars Anell (Sweden)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. In introducing the meeting, the Chairman recalled the objectives of the Trade Policy Review Mechanism as decided by the Council on 12 April 1989 (L/6490). The Council was to base its work on two reports, one submitted by Switzerland (C/RM/G/17) and the other by the GATT Secretariat (C/RM/S/17A and 17B).

2. Three contracting parties (Australia, Canada, the United States) had given advance notice in writing of points they wished to raise during the meeting. The Swiss delegation had been informed of these points. It was understood that these questions should not limit in any way the scope of discussion in the meeting.

3. The Chairman thanked Ambassador Morland and Mr. Kaczurba who had agreed to contribute, in their personal capacities, as discussants to the meeting. He proposed dividing the discussion into two main subject areas:

(1) General objectives of trade policy; questions relating to Switzerland's policy approach toward unilateral, regional and bilateral trade liberalization, including the Uruguay Round, the European Economic Area, and its GSP scheme;

(2) Use of major trade policy instruments and their sectoral implications. Relevant issues included (i) Switzerland's recourse to safeguards under Article XIX, anti-dumping and countervailing duties, and voluntary restraint arrangements; (ii) possible substitutes for trade policy interventions, such as cartel practices and other informal barriers to entry; (iii) the apparent dichotomy in Switzerland's policy approaches towards agriculture and industry.

4. The Chairman invited the representative of Switzerland to give his introductory statement, to be followed by the two discussants.

## 11. INTRODUCTORY REMARKS BY THE REPRESENTATIVE OF SWITZERLAND

5. Switzerland has always attached great importance to the Trade Policy Review Mechanism, which it sees as a means of increasing the transparency of the GATT rules and disciplines, and of supervising their application and hence ensuring better compliance with them. These reviews also allow contracting parties jointly to assess and evaluate the different trade policies and practices of the various contracting parties and their impact on the functioning of the multilateral trading system. Of course, some improvements could be made to the mechanism, a point to which I shall return later.

6. Another significant point is that these reviews force contracting parties to carry out thorough analyses and studies internally; and by obliging each contracting party to explain to the other contracting parties matters that to it seem self-evident, they help to make us again aware of the underlying reasons and justifications for some of our reflex actions. In addition, it allows those in charge of trade policy to familiarise the various national bodies with the machinery of GATT and make the latter better known to all those involved in the country's economic policy. For we are all not only our country's representatives to GATT but also GATT's representatives in our own countries.

7. As far as Switzerland is concerned, the trade policy review comes as a timely supplement to the macro-economic studies carried out by the OECD as well as the exercise to which we are subject every three years in GATT under our Protocol of Accession.

8. The Review Mechanism was the brain-child of the Negotiating Group on the Functioning of the GATT System and thus one of the first successes of the Round. We very much hope that the negotiations as a whole will have the same success.

9. I cannot begin this meeting without first thanking the GATT Secretariat for the large amount of work it has carried out and the quality of the resulting documentation. Its report gives the contracting parties a sound description of Switzerland's trade policy, as well as its objectives and the means for attaining them. Nevertheless, we have noted a number of inaccuracies, to which I shall refer later. I should also like to thank Ambassador Morland and Mr. Kaczurba, who agreed to act as discussants.

10. I now come to the subject which brings us here today, and I shall begin by recalling a number of essential facts which help to situate Switzerland's trade policy.

11. The two institutional pillars on which the Swiss Confederation's economic policy rests are set forth in the Federal Constitution.

12. In proclaiming freedom of trade and industry, Article 31 of the Constitution lays the foundations of a market economy. The State therefore intervenes only in a highly subsidiary manner in the economy. In this connection it is interesting to note that Switzerland has no industrial policy. As a corollary of this principle of non-intervention of the State, the Swiss economy is by and large open to the exterior. It reacts very directly to the international environment and rapidly adjusts to it.

13. The second principle governing our economy is rooted in the history of the Swiss Confederation. Article 3 of the Constitution states that the Confederation has powers only in those matters explicitly delegated to it by the cantons, and thus establishes the principle of the federal structure of Switzerland. That structure is still a guarantee of the country's survival today. In the economic field in particular, each canton pursues its economic policy in a sovereign manner, but the Confederation has responsibility for external economic policy.

14. A few words now concerning Switzerland's place in the world economy.

15. A lack of natural resources and small domestic market quickly led Switzerland to orient its economy towards exporting, as the essential means for financing its imports, ensuring the country's supply of raw materials, and also securing full employment. Over the last thirty years exports have risen six-fold, and GDP five-fold. At present, exports and imports each represent about 30 per cent of Switzerland's gross domestic product. Switzerland's traditional trade deficit (about 5.5 per cent of GDP) is also evidence of the importance of the import sector in our economy.

16. I should like to emphasize here that our economic and trade links with non-European countries are much more important and dynamic than the statistics suggest. The overall figures normally used to illustrate these relations are misleading on three accounts. Firstly, they do not necessarily indicate the real origin of products. This is simply because our "non-European" purchases often pass through the Community and appear as Community products in Switzerland's customs data (cut flowers, bananas or tropical wood). The reality underlying the global figures is much more diverse.

17. The reality is still more diverse if Swiss exports to world markets are broken down so as to take account of the qualitative aspect. Owing to its long-standing policy of specialization, Swiss industry is highly competitive in certain (high technology) markets. As a result of this specialized industry, Switzerland has achieved a high degree of integration in the world economy, which the statistics do not show.

18. Finally, an additional element which bears witness to the integration of Switzerland's economy in the world economy: Swiss investment abroad. Switzerland is, in per capita terms, the world's biggest investor. Far

from being concentrated in Europe, Swiss investments are to a large degree directed towards other economies, particularly the United States and Latin America. This also shows that the integration of the Swiss economy cannot be evaluated solely in terms of imports and exports of goods.

19. A few words about Switzerland's place in European integration. Switzerland has steadily supported the efforts aimed at the progressive liberalization of trade at the world level (GATT) and also the regional level, with the creation of the European Free Trade Association in 1960 and the conclusion of a Free Trade Agreement with the EEC in 1972. These links have further developed since then, and more than one hundred agreements have been concluded to resolve as good neighbours the trade problems between Switzerland and the European Communities.

20. Today, with its six EFTA partners, Switzerland is engaged in a process of negotiation that should lead to the creation of a European Economic Area. This instrument would enable EFTA countries to participate in the internal market of the EC that is being put into place. On a strictly commercial basis, then, this is a continuation of the traditional policy of open markets. However, participation in an internal market of which the parameters are essentially defined by the European Communities raises considerations that go beyond the framework of external economic policy. The present debate in Switzerland concerns these broad political and economic issues. Should we conclude a Treaty on the European Economic Area. Should we and can we join the European Communities, or ought we to find our own path? These are the fundamental questions in the debate. All this adds to the importance of GATT, as the framework agreement for world trade, with its rules and disciplines ensuring access for each contracting party to its partners markets.

21. As concerns GATT more particularly, I think it is worth recalling a number of facts which are contained in the Secretariat report.

22. Switzerland has been a GATT contracting party since 1 April 1966 and has also signed all the Tokyo Round Codes. In the course of the successive Rounds its tariffs, calculated ad valorem, declined considerably and now stand at less than 3 per cent for manufactured products. Almost all tariffs are bound (99 per cent of manufactured products, 54 per cent of agricultural products, for an aggregate figure of 91 per cent). As may be seen, these percentages easily stand comparison with those of certain countries with a structure similar to that of Switzerland, and by the way, also with countries oriented towards agricultural exports.

23. Switzerland's relatively low level of import duties puts it in fifth place among other importers of tropical wood, and hence it has become a significant trading partner for developing countries.

24. Moreover, the least advanced developing countries enjoy zero tariffs on a number of tariff headings under the Generalized System of Preferences (GSP).

25. Although it is a signatory to the Multi Fibre Arrangement (MFA), Switzerland has never resorted to quantitative import restrictions. Textile imports from developing countries have always had ample outlets in the Swiss market.

26. Switzerland maintains virtually no quantitative restrictions on imports of industrial products. What measures do remain are primarily related to national security, public health or the environment. State subsidies to Swiss industry have been reduced to the bare minimum.

27. There are only minor exceptions to the principle of export freedom, essentially relating to products that are sensitive from the national security standpoint. In addition, we have never resorted to voluntary export restraint arrangements.

28. Moreover, Switzerland has never taken anti-dumping or countervailing measures. However, we note that anti-dumping measures are becoming an increasingly important element in the trade policies of contracting parties, which is a disturbing trend. Switzerland has on several occasions been the object of anti-dumping actions, and therefore hopes that strict rules will be established in this area, as well as in all the other rule-making areas being negotiated in the Uruguay Round.

29. The Secretariat Report dwells at length on the cartel policy and its harmful effects on the Swiss economy. We have taken note of its observations and will comment on them during the discussion. We do not challenge the fact that there may still be room for deregulation, which would both enhance competitiveness and reduce the cost of living for consumers. The Swiss authorities are well aware of this and that is why they revised the Cartel Act in 1986. They now have a more effective legal instrument, and its first effects are beginning to be felt.

30. The Cartel Commission - the body responsible for investigations when suspected abuses are reported to it - has become more active. Its investigations into cartel arrangements in the insurance and banking fields were widely reported in the media and led to the elimination of most of the agreements concerned. We may mention by way of example the investigation into banking which led to the abolition of thirteen cartel arrangements; in addition, three other agreements were amended as requested by the Cartel Commission, and two proved superfluous. The appeal against one further arrangement is still before the Federal Tribunal.

31. I now come to agricultural policy. It is no surprise that the Secretariat Report deals with this at great length. May I point out,

nevertheless, that it devotes thirty pages to the subject as against twenty to industrial policy, while the primary sector represents only 2.5 per cent of GDP, the "remainder" being divided between industry and services!

32. The facts as described by the Secretariat are accurate, but I should like to recall two points here: firstly, Switzerland meets more than a third of its food needs from imports, and exports very few agricultural products. Secondly, Switzerland's agricultural policy pursues both trade and non-trade objectives. The latter include the maintenance of a decentralized rural population, protection of the land, countryside and environment, and also the concern to retain a productive agricultural sector that can ensure the country's supply in times of crisis. The many functions fulfilled by our agriculture leave some potential for conflict at the level of objectives. This policy also means that the agricultural sector has greater weight than would be the case if only narrow economic considerations were taken into account.

33. This friction between the functional requirements underpinning Swiss agricultural policy over the last few decades and those of more open international trade, as well as the internal challenges facing agriculture (ecology, high cost of the agricultural policy), have prompted intense soul-searching in the country. The authorities have begun to study and implement new measures - payments not linked to production, incentives for environmentally favourable actions, for example - which will enable Switzerland to conserve an agricultural sector that can fulfil its many important functions while at the same time adapting to current trends, including those in GATT.

34. An adjustment process is thus underway, and Switzerland expects the Uruguay Round negotiations to establish a multilateral framework consisting of reliable and precise rules that take account of the diverse functions of agriculture; a framework which will help it in its efforts to carry out internal reforms.

35. Now, and this is only fair play, I should like to take up a few points on which we do not fully share the Secretariat's analysis.

36. First of all, the report does not seem to describe perfectly accurately the admittedly complex system of the distribution of powers between the Confederation and the cantons (Article 3 of our Constitution, which I mentioned a moment ago). There is also sometimes a tendency to reach somewhat hasty conclusions in this regard.

37. In a number of places (standardization policy, allocation of State aid, for example) the Secretariat report gives the impression that within the margin of manoeuvre left to them, the cantons conceal a certain protectionist potential. This is an unfortunate tendency towards scare-mongering!

38. By way of example I would refer you to the twenty-odd paragraphs reviewing State aid that can be granted by the Confederation and the cantons. We welcome the precision with which the analysis is made, but in the event we fear that this concern for detail may end up by giving a false picture, by creating the impression that these instruments are an important element of cantonal policy and likely to have a negative effect on international trade. I wish to emphasize here that the amounts involved are very small: thus, the State aids of the Confederation and the cantons represent 0.04 per cent of GDP.

39. Again in the Chapter on institutions, the Secretariat report highlights the cumbersomeness of the decision-making process in Switzerland, the inevitable corollary of our system which emphasizes consultation and the search for compromise. While such a remark is relevant in itself, it should nevertheless be borne in mind that in the case of an economy which is largely free from any legislative hindrances, such a process is hardly likely to have any consequences. It would certainly have a negative effect in the case of a highly regulated economy, which is, once again, not Switzerland's case.

40. I also wish to make a number of comments on the economic analysis and bring some shading to certain conclusions.

41. The report repeatedly suggests that the Swiss economy is having difficulty in adapting to international competition. We cannot concur unreservedly with this analysis. A large part of Switzerland's industrial fabric consists of small and medium-sized enterprises which are in the process of continuing adjustment. The full extent of this process is often not realised by certain observers for whom Swiss industry only too often boils down to a few world-scale enterprises.

42. By way of example, I will mention our textiles and watch-making industries. These two major branches of our economy have been passing through troubled times for the last thirty years. They have faced up to this by carrying out substantial restructuring measures, which have led to a decline in employment of 62 per cent in the textiles industry, 72 per cent in the clothing industry and 54 per cent in watch-making, while at the same time directing production towards products with a high value added. Thanks to its innovation efforts in specialized fields, the Swiss watch-making industry is once again world leader on many markets. Actually, the absence of anything that can really be called industrial policy in Switzerland is an advantage for such adjustment processes because it leaves the field free for private initiative.

43. In its Summary Observations, the Secretariat report also notes that, "Swiss industry appears to have lost ground in advanced product areas." I think this must be a misunderstanding based on a different conception of the expression "advanced product area". While it is true that Switzerland

has no major industry in what are usually designated high-technology areas (space research, telecommunications and so forth), the specialization and scale of Swiss firms means that they are often at the forefront of world progress in their field of specialization. Furthermore, the picture may be distorted by the fact that Swiss inventors increasingly tend to apply for their patents in Munich, under the European Patents Convention, rather than in Switzerland.

44. There is another area where a superficial analysis leads to a mistaken conclusion. The Secretariat report states that in the textiles and clothing industry Swiss producers appear to benefit indirectly from the restrictions imposed by the European Communities under the MFA which hinder deliveries from many developing countries.

45. First, how far Switzerland can be responsible for another country's protectionism is a moot point. But in any event, the above observation would only be valid if the products in question were actually competing ones. However, we would doubt that these products do compete directly, since the Swiss market is open to exports from developing countries, and therefore the Swiss industry, which cannot rival the latter in price, has emphasized different products.

46. Finally, a few details concerning subsidies and the way they are granted. In Switzerland, aids are granted on a discretionary basis, which means that even if an enterprise satisfies the relevant criteria it will not therefore automatically be entitled to the aid. From the economic standpoint, this means that the volume of subsidies is strictly controlled and kept very low.

47. These criticisms are not intended in any way to question the excellent quality of the work done by the Secretariat. But it must be acknowledged that drawing rapid conclusions from apparently simple data may lead to a distorted view of the facts. This is particularly true in economics.

48. This distortion of the economic realities also certainly comes from the fact - and here the Secretariat report is in no way to blame - that the Trade Policy Review Mechanism, as defined by the contracting parties, has to confine itself to a partial analysis.

49. For while the review provides a relatively thorough view of a country's domestic economic policy, with its review of the various sectors (monetary policy, investments), it is limited to trade policy when dealing with external economic policy, thus ignoring such important areas as services or investments. For many countries it has long been the case that their economic health can no longer be judged solely in terms of trade in goods. To aim at segmenting an area so vast and complex as external economic policy, inevitably raises the danger of a distorted view of reality.

50. In our opinion it is a flaw that may be attributed to the fact that the Trade Policy Review Mechanism is in its teething stage. We think it would be wise for the contracting parties to consider this problem before the TPRM is established on a definitive basis, so as to allow the review process to develop its full potential.

51. Before closing these few introductory remarks, I should like to emphasise once again the importance Switzerland attaches to GATT as an institution and its hope that the Uruguay Round negotiations will shortly lead to results that are on a par with the ambitions of Punta del Este.

52. The active rôle Switzerland has played and continues to play in the Round is a reflection of its desire to give pride of place to multilaterally-agreed solutions in order to promote trade liberalization. That is the only way to discourage the use of unilateral measures whose economic effects are in the end as harmful for those who employ them as for those who are their victims.

53. In the face of a radically changing international environment, Switzerland is well aware of the new challenges it will quickly have to overcome in order to improve its competitiveness, and also of the new possibilities that will open up for it. Switzerland is therefore currently reviewing many aspects of its traditional policy which have remained untouched, and indeed untouchable, for decades. This adjustment process will not be painless. But the ensuing reforms will certainly be in line with the fundamental principles of open multilateral trade.

54. I therefore welcome this opportunity to conduct with the contracting parties a detailed and, I am sure, fruitful discussion of my country's trade policy.

### III. GENERAL OBJECTIVES OF TRADE POLICY

#### (1) Statement by the first discussant

55. There was occasion yesterday to compliment the Government of Norway and the Secretariat on the high quality documents produced for the trade policy review of that country. The two reports before us today covering Switzerland's trade policy and practices seem to be of an equally high standard and the Swiss representative, Ambassador Girard, has also made a most helpful contribution with his opening remarks.

56. I particularly noticed the statement that it would be right to consider Switzerland's policy in the context of an ongoing debate over the country's future, its link with a European Economic Area and, perhaps further down the road, with the European Communities. Ambassador Girard also referred to an intense process of reflection in Switzerland. One can hope that the Trade Policy Review Mechanism, whatever its imperfections, can contribute to these reflections in a helpful way.

57. Switzerland plays host to the GATT and has been an active member since full accession in 1966. Economic performance has been the envy of many countries and both documents highlight many aspects of this success, including consistent GDP growth, current account surpluses and low unemployment. But more recently there have been negative trends in key indicators. The recently published OECD Annual Survey highlights some of these problems, notably the rate of inflation, rising import costs and higher wage settlements. But on a positive note, it is clear that the effect of recent modifications in monetary policy has not yet been fully felt and economic forecasters generally believe that a modest recovery is now in prospect.

58. The structure of the Swiss economy, like others, is also undergoing change with a marked shift toward the services sector. But there are still high investment ratios in research and development, both from public and private sources. These continue to be an important feature.

59. Council members may dare to compare and contrast Swiss policies with policies of countries which have similar structures in some respects. Australia - although obviously different in many ways - may provide an example, or Switzerland's EFTA partner Sweden. Both Sweden and Switzerland are highly dependent on external trade, they have an ageing population, and they have experienced a recent history of growth which is slightly below OECD averages. Inflation has been on the upswing and has affected competitiveness. Sweden has reacted with bold structural changes, including trade liberalisation and reduced support for weaker sectors.

60. New Zealand is another example of a small economy that has taken significant trade-opening measures and reduced support for industry and

agricultural as a means towards improving competitiveness. It is worth considering whether Switzerland has in mind any similar actions, for example with respect to cartelization and other constraints that are being maintained, in spite of certain changes. Does Switzerland think it can continue to afford to provide assistance to weaker sectors for reasons, as Ambassador Girard has said, that may not be entirely economic?

61. This morning we completed the review of Norway's trade policies and practices and there is one feature of both these EFTA economies which is strikingly similar, notably the different approach between policy making in the agricultural and industrial sectors. I shall return to specific aspects which underline this fact later.

62. Switzerland has long been established as a global trader but, unsurprisingly, the pattern of its trade mirrors its geographical position and the evolution of economic links with its near neighbours over its seven-hundred-year history. The Secretariat report records that those countries sharing a common border with the Confederation account for 59 per cent of imports and 43 per cent of exports in 1989. In recent times, Switzerland has further cemented these relationships, first as a founder member of EFTA in 1960 and then as a signatory to trade agreements with the European Communities in 1972. The Swiss Government report confirms this increasing orientation of Swiss exports towards the EC. Consequently, the proportion of m.f.n. trade is low.

63. The next stage of this process is Switzerland's active participation in the negotiations on a European Economic Area. The reports before us highlight the fact that certain aspects of these discussions have proved problematic for the Swiss authorities - for example, the question of sovereignty and the degree to which this might be ceded under new institutional arrangements. There are other specific difficulties, for example in the transport area.

64. Ambassador Girard has underlined the Federal Government's commitment to a successful conclusion to the Uruguay Round as a means of complementing and reinforcing the process of regional integration. Evidence of this is the active rôle Switzerland continues to play in the negotiations.

65. A review of Swiss trade policy would be incomplete without a word or two about the institutional aspects of policy formulation. Switzerland is a unique system with policy making highly devolved and the cantons enjoying a high degree of economic autonomy. However, as an element of external relations, authority to conduct trade policy is vested in the Federal authorities under the Constitution (Article 108), although there exists a clearly defined rôle for other Federal bodies. Council member may agree that the structure of consultative commissions and the rôle of interest groups coupled to the traditional Swiss inclination toward conciliation, ensures that most shades of opinion are heard in the policy debate - even



though to the outsider the system may sometimes appear to lack transparency.

(2) Statement by the second discussant

66. The examination of economic and trade policies of Switzerland is a rewarding experience in its own right. We are dealing here with a country which has a special position in the European political and economic currents, both historical and contemporary, based on a unique blend of traditional values, stable institutions and action-oriented pragmatism of its hard-working, disciplined society.

67. From a more focused GATT perspective, Switzerland should be viewed as a particularly interesting case of trade-led growth. Indeed, the impressive record of outward-oriented commercial policies which have propelled Switzerland to the top of economic prosperity, deserves keen interest of many members of the international trading community. Quite often they may be more generously endowed by nature with physical and human resources, but have yet to learn how to utilize them more efficiently and more effectively through a well designed interaction with the outside world. Also from this point of view the exercise which we are just beginning may be very instructive.

68. It is highly appropriate, at this juncture, to commend the Swiss authorities and the GATT Secretariat for the excellent quality and the high informative value of the documents presented for the purpose of this review.

69. The geographical pattern of trade is heavily focused on free-trade partners from EFTA and EC, who jointly claim roughly two-thirds of Swiss exports and close to 80 per cent of imports. On the import side the weight of this group of trading partners is substantially bigger than, for example, in the case of Norway, with obvious implications for the relative importance of m.f.n. tariff rates.

70. Here again the participation of what is still described as Eastern Trading Area is strikingly small, with less than 2 per cent of total Swiss imports in 1989. It would be interesting to learn how the representatives of Switzerland see the future trade relations with GATT contracting parties in that region, considering the ongoing negotiations on their closer institutional links with EFTA. The question of diversification of the geographical pattern of Swiss imports seems to be valid also with regard to most of the non-European GATT members.

71. Switzerland's GSP scheme is free of quantitative ceilings and provides stable conditions of market access, while the product coverage, concentrated on non-agricultural items, appears wider than that of many other industrial countries. In view of certain product- and

country-specific exemptions, however, tariff advantages under GSP are still less comprehensive than those available to Switzerland's free-trade-area partners.

72. The commitment of Switzerland to the principles of free and competitive trade outside agriculture is well known and appreciated. One should also recognize the fact that Switzerland makes genuine efforts to practice the same values that it preaches. By way of example, this may be demonstrated by the fact that although it is a member of the Multi-Fibre Arrangement, Switzerland appears to have never resorted to restrictive actions under the MFA. It has resisted calls to undertake "voluntary" restraints on manufactured exports outside the disciplines of Article XIX. The same consistency of moral standards underscores the active Swiss attitude towards dispute settlement procedures or the general assumption that GATT rights and obligations should not be separated.

73. While it may be claimed with some justification that the Swiss legislative process is complex and sometimes quite lengthy, the legal base of external economic and trade relations may be described as extensive, transparent and readily available to foreign partners. An important element of stability of the system is provided by the constitutional nature of the fundamental provisions relating to foreign commerce.

74. Public authorities generally demonstrate their neutral attitude towards competitive behaviour of Swiss traders in the international market. However, it might be useful if the Swiss delegation wished to elaborate on a somewhat intriguing principle of subsidiarity under which "the State intervenes only if the economic operator is no longer able to overcome alone the trade barriers resulting from measures taken by the authorities concerned in export markets". I would appreciate if the Swiss representative could expand a little on the modalities of this concept in its practical application.

(3) Statements and questions by the members of the Council

75. Council members complimented Switzerland and the GATT Secretariat for the quality of their reports which were considered to be highly informative and a good basis for the review process. The discussants were thanked for their constructive introduction to the debate.

76. Council members agreed that, with the exception of agriculture, the Swiss economy was generally open to international trade and largely free of distortive policy interventions. Switzerland was praised for its firm commitment to a rule-based trading system, for its determination in defending basic GATT principles and for its active participation in the Uruguay Round.

77. The representative of Canada noted that the ongoing negotiations on a European Economic Area provided additional evidence of Switzerland's commitment to trade liberalization.

78. The representative of Yugoslavia stated that Switzerland was one of Yugoslavia's most important partners in the areas of trade, technology transfer, joint ventures, investments, financial cooperation and services. Switzerland's basic trade policy approach was outward-oriented, based on the principles of freedom of trade and industry. Like the second discussant, she sought further explanation on how the Swiss Government interpreted the concept of subsidiarity.

79. The representative of New Zealand remarked that Switzerland, in view of its economic success and its generally open trade régime, was sometimes considered a model case. As the first discussant had already noted, the country was currently undergoing a process of reflection with respect to its future rôle in Europe. Agriculture had so far been excluded from Switzerland's free trade agreements and remained a major stumbling block to its full integration, for example in the EC. He invited the Swiss representative to elaborate on this issue.

80. Given the geographical situation of Switzerland and its free trade agreements, it was not surprising that preferential trade accounted for a very high proportion of total imports. However, he expressed concern about the inherent tendency for GATT's fundamental m.f.n. principle to be undermined.

81. The representative of Finland, on behalf of the Nordic Countries, said that skilful and wise policies were at the roots of Switzerland's present leading position in the world economy. It was only recently that the country had been confronted with worldwide phenomena, such as inflation and unemployment.

82. He considered Switzerland to be a good example of a country where trade policies were planned and carried out in a well-structured and predictable manner. Switzerland was a fervent defender of the multilateral trading system. This was also evidenced by its active rôle in developing more efficient GATT rules, ensuring compliance with GATT disciplines and improving the functioning of the dispute settlement mechanism, although the country had hardly ever been involved in disputes in the GATT context. Switzerland's reliance on international trade had been complemented by a comprehensive network of bilateral agreements to safeguard additional trade policy benefits.

83. The representative of the United States remarked that Switzerland's economic success was one of the best examples of the benefits to be derived from an open and liberal multilateral trading system. His country was pleased that Switzerland was working with the EC to co-ordinate on issues

such as competition policy, transportation, standardization, public procurement, domestic regulation and the free circulation of persons in a European Economic Area. He hoped that efforts towards liberalization and harmonization with the European Communities would be extended from the industrial sector to other segments of the Swiss economy and to Switzerland's trading partners outside the EC/EFTA area.

84. The representative of Australia noted that Switzerland's trade régime for industrial products, as distinct from agriculture, was largely free of Government assistance and import barriers. There was also some evidence that Switzerland's trade policy thinking had become more outward-oriented in the context of regional and international economic developments. The need for change appeared to be accepted. A European Economic Area would necessitate policy reforms in the sphere of standardization, public procurement, competition and transport. However, their implementation would require considerable political commitment in order to overcome long-entrenched internal rigidities.

85. The representative of Chile referred to Switzerland's enviable economic position, in terms of per capita income, employment levels, inflation rates and institutional stability. A highly regulated economy ensured stability and predictability for the Swiss population in virtually all spheres. He noted, however, that for some time there appeared to be a lack of economic dynamism. Inflation had picked up and trade surpluses in important sectors were dwindling. These developments argued strongly for institutional reforms in order to liberalize and deregulate various sectors, including agriculture.

86. The representative of Hungary shared the view, expressed in the Secretariat report, that the ongoing process of reconsidering traditional policy approaches in Switzerland could go hand in hand with, and assist, the country's commitment to multilateral trade liberalization. He noted that Swiss-Hungarian economic and trade relations had developed very rapidly in recent years. This was mainly attributable to the growth of Hungarian imports, as a result of liberalization measures. In contrast, the growth of Hungarian exports to Switzerland had somewhat slowed down. It was therefore of particular importance to his country that Switzerland improved market access in areas such as agriculture where Hungary had comparative advantages. He expected that current negotiations on a free trade agreement between Hungary and the EFTA countries, as well as ongoing bilateral talks with individual EFTA countries, would result in reciprocal trade concessions on agricultural products and rapid trade expansion across the widest possible product range.

87. The representative of Austria pointed to similar geographical and geo-political factors in his country and Switzerland. Austria had much understanding for Switzerland's efforts to ensure the appropriate inclusion of non-trade objectives in the Uruguay Round. It should be acknowledged,

in this context, that the Swiss economy was in general very open to international trade. Switzerland was an active participant in many European fora, including EFTA and the negotiations on a European Economic Area; it would certainly continue to play an important rôle in any future European economic structure.

88. The representative of Japan appreciated Switzerland's traditional support for an open international trading system and its active rôle in creating and promoting regional economic integration. His country fully recognized the political, economic and cultural reasons that required closer European integration. However, any new structure had to be open, transparent and predictable to outsiders. Non-members, not least developing countries and eastern European countries, should be allowed to benefit from the positive effects of integration.

89. The representative of the European Communities recalled Switzerland's close ties with the EC and its member States. The Communities followed closely, and with interest, sympathy and vigilance, the evolution of trade and economic policies in Switzerland. The Secretariat report had shown that the Swiss economy, while still relatively strong, had recently experienced low economic growth and rising inflation. In certain industries, it appeared to have lost competitiveness.

90. Switzerland was surrounded by an extremely dynamic European environment, and it certainly had the intention to keep pace. However, as acknowledged by the Swiss authorities, there was an urgent need for reform in order to overcome internal rigidities. Many of the relevant issues were also at the core of the negotiations on a European Economic Area and of the Uruguay Round.

91. The EC representative expressed surprise about a statement in the Secretariat's Summary Observations, according to which Switzerland viewed a successful conclusion of the Uruguay Round as a complement and a counterbalance to trade initiatives in Europe. He wished to know whether this statement, which he considered completely unfounded, reflected the Secretariat's opinion or, even more disturbing, the position of the Swiss authorities.

92. The representative of Morocco remarked that Switzerland, in view of its economic performance, was widely considered as an example to be followed. Based on a largely open economy, the country was able to ensure high standards of living and industrial competitiveness without compromising its national characteristics.

93. Referring to Switzerland's continuing trade surpluses with non-OPEC developing countries, he criticised certain weaknesses of the Swiss GSP scheme, in particular its limited product coverage. Non-tariff measures played a further rôle in limiting access to the Swiss market. The Moroccan

representative wished to know how Switzerland intended to adapt its GSP scheme to changing circumstances, including the decreasing importance of tariff- as against non-tariff barriers to trade. He also noted that producers of low-priced primary products continued to be adversely affected by Switzerland's specific duties - an anomaly for a country specialized in high-value products.

94. The representative of Egypt noted that Switzerland was one of Egypt's most important trade and investment partners and expressed appreciation for the liberal approach that characterized Swiss trade policies. He also welcomed that the Swiss authorities regularly examined and revised the country's GSP scheme in order to take into account the beneficiaries' level of development and their financial and commercial situation. Switzerland should also consider adding new commodities to the scheme and, thus, providing extended access opportunities.

#### IV. USE OF MAJOR TRADE POLICY INSTRUMENTS AND THEIR SECTORAL IMPLICATIONS

##### (1) Statement by the first discussant

95. When considering the use of trade policy instruments, one is immediately struck by the difference of approach between the agricultural and non-agricultural sectors and, as the Secretariat report puts it, the absence of "formal" policy measures except in the agricultural area.

96. Against that background, one could also note that both reports show that the Swiss authorities have not had recourse to the GATT safeguard mechanism under Article XIX for non-food imports, have never invoked GATT anti-dumping or countervailing rules, nor have applied restrictions under the Multi Fibre Arrangement. One might however ask whether this reflects the fact that other policies, such as the operation of import cartels, have provided for similar degrees of protection.

97. Another fact worth noting is that the Federal Government has signed all the Tokyo Round Codes. Industrial tariffs are low with a simple average of only 2.8 per cent in 1988 and a very high incidence of bindings at 99 per cent of tariff lines. However, there is some evidence of tariff escalation, notably in the textiles sector. Perhaps most interesting is the fact that Switzerland - alone among industrial countries - applies exclusively duties which are specific as opposed to ad valorem. This system is inherently biased against cheap and heavy items. Although the reports before us identify some of the key factors in the Federal Council's 1988 decision to retain its system, it would be quite interesting to discuss further the reasons behind this decision.

98. The above facts and figures contrast with the tariff position in the agricultural sector: a simple average duty of 12.7 per cent, tariff peaks, some at over 100 per cent, and only about half of tariff lines bound. In addition, there is a great variety of levies and charges applied to agricultural imports, including variable import levies, tariff supplements and export subsidies.

99. Contracting parties may also wish to comment on the scope and coverage of Switzerland's GSP scheme. Although it is free from quantitative ceilings and has a wide coverage in some areas, the vast majority of agricultural products are excluded and the scheme seems generally under-used by potential beneficiaries.

100. Other points worth considering include the rôle of agricultural State trading enterprises.

101. A further area of major trade policy importance is standards, which is a preserve of the private sector. There remains a high degree of conformity with international norms in the area of new standards, but

differences between Swiss practices and those of its major trading partners (notably the European Communities) continue to persist in more traditional areas, and there are examples of standards having trade restrictive effects. Changes are going to be necessary as a result of the EEA and other factors. Council members may wish to comment on these aspects, including the linkage between standards and the operation of cartels as mentioned in the Secretariat report.

102. Similar questions may be raised in the area of Government procurement where trading partners have noted a degree of buy-local preference or content. Is the considerable autonomy of the cantons a factor here?

103. Cartels appear to have had a central position in the operation of the Swiss economy for some years. Observers of the system have noted that "the considerable restraint exercised in competition policy over a long period and other characteristics of the Swiss economic and social system have resulted in a concentration of restrictive practices on the Swiss domestic market which is unequalled in any other country" (Secretariat report).

104. The guiding principles for the operation of cartels appears to be their economic and social impact. Article 29(3) of the Federal Cartel Act stipulates the circumstances where cartels are deemed to be harmful. But could one argue that the criteria used to assess cartels, even with recent legislative changes, do not place enough weight on competition and the consumer interest?

105. Other points worth considering could include the rôle and effectiveness of the Swiss Cartel Commission, which appears to be lightly staffed; the operation of the system of price surveillance, including the legal criteria for assessing abusive prices (the Law on Price Surveillance); and also the activities of Price Inspector. Perhaps one of the most significant observations in this context is that, as a general rule, cartels can only be sustained if protected from new entrants (Secretariat report).

106. Regional assistance also seems to be an important component of the country's economic fabric. Some 70 per cent of Swiss territory has access to special support schemes of one kind or another. It is noted that a range of small and medium sized industries benefit from these schemes, particularly in the mountain areas. Will these schemes evolve and change as a result of changes in the Swiss economy itself and the external environment?

107. Finally, from a sectoral perspective, I would like to point to reform needs in agriculture. Both the reports before us note that the system in its current form cannot be sustained indefinitely. The tenets of Swiss policy are to be found in the Constitution and great weight is attached to the principles of food security and health, and to the environmental impact

of farming. However, what exactly is food security for, and what is it against, as Switzerland continues to move into increasing degrees of trade integration with its neighbours?

108. In the industrial sphere, the operation of cartel-type arrangements and their price effects, for example on oil and coal, and the high degree of non-tariff protection for telecommunications might merit further exploration.

(2) Statement by the second discussant

109. I fully endorse the comments made on the high quality of a wide range of Swiss trade policy instruments. Nevertheless, this positive assessment may, at least in some cases, need to be qualified by certain comments.

110. For example, the analysis provided by the GATT Secretariat seems to indicate correctly that specific import duties, based on weight or quantity of the goods imported, may, in some instances, result in a higher effective impediments to imports than might have been the case under conditions of a moderate ad valorem tariff. This is likely to affect relatively lower-processed goods, such as textiles or food. I accept the argument presented in Switzerland's report that specific duties are neutral to changes in nominal prices of goods and therefore may result in a reduction of the ad valorem incidence and, consequently, in revenue losses to the Treasury when import prices increase. By the same token, however, the reverse is true when prices decline, which is not so unusual under competitive trading and frequent exchange rate fluctuations.

111. Although the overall level of tariff bindings is remarkably high, such bindings are heavily concentrated in the industrial products category, while on agricultural and related products less than half of all tariff lines are fully bound.

112. The country and product coverage of the Swiss GSP scheme is quite extensive indeed. However, approximately half of the total preferential imports come from only five beneficiary countries which leaves all the remaining eligible suppliers with a relatively modest share of the market. This observation, of course, does not imply a criticism of Swiss trade policy, but is merely a statement of fact.

113. The high level of restraint and GATT disciplines, demonstrated by Switzerland in respect of non-tariff border measures on non-agricultural imports, has already been acknowledged. It is in this context that one may welcome the fact that the Swiss Government currently considers the possibility of a substantial liberalization of such remaining instruments of trade intervention as the system of price notification and surveillance on textile and clothing imports, which appears to affect certain competitive European and non-European suppliers.

114. One striking feature of the Swiss economy is a negligible rôle of federal financial support to the industrial sector. It is not entirely clear, however, to what extent, in which forms and based on which criteria, such supports may be extended at the level of regional authorities, both cantonal and communal, although it may be safely assumed that the possible assistance of this kind is not likely to have a major trade impact. The representative of Switzerland has confirmed this assumption while indicating that the total volume of public aid at the federal and regional level represents indeed a minuscule fraction of GDP. Moreover, even a small part of a large GDP may have a tangible impact, depending on how it is used and targeted.

115. As regards technical regulations and standards, the Secretariat report contains several observations which suggest that some requirements enforced by Switzerland exceed those of other developed countries, which may create impediments to imports.

116. One area where the competitive behaviour of economic operators may be restrained is public procurement. It represents a substantial segment of demand for domestic and external supplies. Here again, there appears to be a substantial margin for discretionary practices, especially at the level of local administrations.

(3) Statements and questions by the members of the Council

117. The representative of Canada noted that Switzerland's agricultural policy involved a tremendous diversion of resources from other sectors. This was certainly a major factor behind the OECD finding that, when real purchasing power was taken into account, Switzerland's relative prosperity was considerably lower than indicated by international income comparisons at actual exchange rates. Trading partners were particularly worried about the negative impact of Swiss agricultural policies on international trade. Canada thus welcomed the growing recognition in Switzerland that reform was inevitable, especially if the country was to contribute to and benefit from a successful outcome of the Uruguay Round.

118. Cartel practices were an additional area of concern. In its analysis, the GATT Secretariat had been suitably cautious in avoiding premature conclusions. Canada's own experience suggested that cartels and monopolies, apart from contravening consumer interests and overall economic efficiency, could have very real trade limiting and distorting effects. The importance of competitive markets was increasingly recognized in international fora, including the OECD. Hence, Switzerland's tolerance of cartel practices was something of an anomaly.

119. The Canadian representative also wondered about the relatively small share in the Swiss textiles and clothing market of deliveries from developing MFA participants. This was particularly surprising as

Switzerland had refrained from imposing quantitative restrictions under the MFA.

120. He noted that Canada had forwarded to the Swiss authorities, through the GATT Secretariat, detailed questions on a number of problem areas, including agriculture.

121. The representative of Yugoslavia drew attention to pronounced differences between Switzerland's trade policies towards industry and agriculture. She invited the Swiss delegation to provide more information on current reform considerations.

122. The Yugoslav representative also sought further clarification on Switzerland's use of environment-related standards, their impact on trade, and possible changes in the context of a European Economic Area. Referring to issues of competition policy, she was interested in Switzerland's response to the Secretariat's assessment that collusive practices by industries and wholesalers could have operated as substitutes for trade remedy actions under the GATT. She noted that Yugoslav exporters had complained about entry barriers into wholesale and retail trade in Switzerland.

123. While Yugoslavia appreciated Switzerland's high degree of tariff bindings and very low tariff averages on industrial products, there were still some tariff peaks in the textiles and clothing sector where ad valorem tariff equivalents reached 20 per cent. Switzerland's system of specific tariffs was biased against lower-priced products and, thus, in particular against deliveries from developing countries. The Yugoslav representative recognized, however, that Switzerland had never applied MFA restrictions. She expected the Uruguay Round negotiations to contribute to greater tariff harmonization and to the elimination of tariff peaks.

124. The representative of Australia mentioned that Switzerland's stated trade policy objectives did not always correspond with the realities. The political structure of Switzerland appeared to have provided scope for anomalies and impediments to a truly open market. While policy interventions in industry were generally limited, restrictive practices existed at the regional level. Australia was interested to learn how the Federal Government intended to address protectionist policies, for example in the areas of subsidization and Government procurement, by the cantons and communes.

125. Switzerland's trade régime in agriculture was substantially different from industry. Agriculture was highly protected through tariffs, the use of quantitative restrictions and other non-tariff barriers such as subsidies, variable levies, price and tariff supplements. Requirements to purchase domestic production in proportion to imports (prise-en-charge system) were questionable in respect of national treatment considerations.

High levels of agricultural support had a substantial negative impact not only on Switzerland's trading partners, but also on the broader Swiss community. Resource misallocation could undermine the international competitiveness of the more export-oriented industrial and services sectors. It was interesting, in this context, that Switzerland's high technology exports appeared to have lost ground recently, while self-sufficiency in food products had increased.

126. Although ostensibly in place for reasons of food security, Swiss agricultural policy had actually encouraged surpluses, for example of dairy products. Such policies had proved very harmful to efficient agricultural exporters, including Australia, many developing countries and the central and eastern European countries.

127. Market access was often impeded by arrangements between producers and traders, sanctioned by Swiss cartel law. A potentially restrictive regulatory system effectively covered the entire market for wine and 80 per cent of the beer market. Moreover, the lack of a cartel register limited the scope to identify cartels and their effects on market access.

128. The Australian representative also expressed concern about an apparent array of non-tariff barriers in services sectors, such as telecommunications. Costly approval procedures for telecommunications terminal equipment constituted, again, barriers to open and legitimate competition.

129. Referring to Switzerland's Export Risk Guarantee Scheme, he remarked that the scheme had operated, at least temporarily, as a substitute for official export financing. Annual deficits had been offset by Government loans. Noting that the GRE had posted a deficit of about Sw F 160 million in 1989, he enquired whether there was any cap on such deficits and whether and when the Swiss authorities intended to review the scheme.

130. Australia had submitted additional questions in writing, relating to aspects of competition policy, subsidization, public procurement and agriculture, and was looking forward to Switzerland's responses.

131. The representative of New Zealand noted that Switzerland had accumulated a panoply of support measures, controls and restrictions in the agricultural sector under paragraph 4 of its Protocol of Accession to the GATT. Swiss agricultural policies thus stood in broad contrast to the country's approach towards industry and services. The Secretariat report had highlighted the costs to the Swiss economy and the need for liberalization if Switzerland wanted to maintain overall competitiveness. New Zealand's own experience showed how seriously long-term support for inefficient segments of the economy could affect the efficient traded-goods sectors.

132. Switzerland's agricultural policy was characterized by high tariffs, low levels of bindings, a widespread use of supplementary levies, surcharges, quotas, licensing requirements, mixing regulations and State trading operations. The complexity of many instruments reduced transparency, and the widespread use of non-tariff restrictions run counter to the GATT philosophy of tariffs as the principal means of protection. Benefits of the system were concentrated on some insiders, and structural change was inhibited. This had rendered it difficult for trading partners to make effective use of certain, albeit limited, access opportunities, for example in the meat and wine sectors. Referring to Switzerland's safeguard action on white wine in 1974, he wondered how Switzerland justified the continued application of this emergency measure.

133. The system of direct production controls for milk had contributed, as noted by the Secretariat, to increasing production costs and, implicitly, subsidization.

134. In the grain sector, the supplementary charges for financing national reserves varied in relation to the level of self-sufficiency. This was particularly notable in view of Switzerland's stated position that it did not pursue self-sufficiency targets. In fact, overall self-sufficiency had increased considerably over time and, in the cheese sector, exports of surpluses directly contravened the trading interests of low-subsidy countries.

135. The New Zealand representative failed to understand the political necessity for regulating sectors such as fresh flowers. He also wondered how the general policy objective of providing agricultural products at favourable prices could be met as current support mechanisms mainly relied on price-related transfers.

136. Switzerland had neither in the Working Party on its Protocol of Accession nor in its TPRM report provided comprehensive information on its prise-en-charge system. He hoped, however, that the Swiss delegation was now prepared to give additional details. More generally, he noted that other contracting parties with similar objectives in agriculture had not found it necessary to seek such exemptions from GATT disciplines. Also, despite the terms of its Protocol, Switzerland had failed to provide a steadily expanding market for agricultural products. He invited the Swiss authorities to explore ways and means of more market-oriented policies.

137. Turning to specific institutional aspects, the New Zealand representative expressed surprise that the Federal Council was free to enact trade measures, including trade restrictions, without immediate Parliamentary approval. The fact that the Federal Council was also empowered to fix prices suggested that, despite a general tendency towards consensus Government, direct democracy and intensive consultations, there

was considerable scope for trade policy actions to short-circuit standard procedures.

138. The political and economic autonomy of the cantons, coupled with a high degree of political cooperation at the Federal level, appeared to be an important factor behind the strong rôle of large, well-organized interest groups in Switzerland. Also, in certain policy areas, the cantonal autonomy tended to affect transparency; subsidies by the cantons were only reported on a voluntary basis.

139. The New Zealand representative, reiterating concerns by other delegations, also pointed to protectionist procurement practices by the cantons, the negative trade impact of regulated prices and cartels, barriers resulting from high approval costs for telecommunication terminal equipment, and the distortive effects of specific tariffs.

140. The representative of Finland, on behalf of the Nordic countries, said that the presentation of Switzerland's agricultural policies, including their trade implications, was an important part of the reports. He recalled that, in the Uruguay Round, Switzerland had strongly emphasized non-trade concerns while expressing its readiness to gradually reduce support and border protection. Also, Switzerland was prepared to consider, in the light of the outcome of the Round, a review of the conditions of its Protocol of Accession.

141. It was interesting to see how the complex political process of reviewing the country's trade and, in particular, agricultural policy proceeded. He found it difficult, however, to give advice on how to best balance the different values involved.

142. As regards the use of individual trade policy instruments, the Finnish representative noted that low tariffs and a high degree of bindings testified to the openness of the Swiss economy and its reliance on international trade. However, measures in some areas, including standardization and competition policy, had given rise to criticism. The Secretariat had taken up such problems in its Summary Observations.

143. The representative of Chile noted that, in 1990, subsidies for Swiss agriculture were three times higher than Chile's total exports in the sector. Switzerland's approach was not in harmony with the fundamental GATT principle of trade liberalization. It contravened both the interests of domestic consumers and of efficient producers abroad. Mere reference to the concept of food security was no sufficient justification. He wondered, for example, how this concept could be applied to cut flowers and wine. Referring to current discussions on policy reform, he wished to know whether there were any intentions to extend the coverage of the Swiss GSP scheme in agriculture.

144. The representative of the United States encouraged Switzerland to apply its basic policy approach in the industrial sector, based on transparency and open markets, to other areas, notably agriculture. He noted that current Swiss agricultural policies and their recourse to high tariffs, quantitative restrictions, and other trade barriers stood in contrast to the basic free trade principle of the GATT. It was his understanding, however, that the Swiss Government was currently considering proposals for reforming the system by substituting direct payments for market-distorting price guarantees. This was a step in the right direction, and the United States was interested to be kept apprised of any progress. In this context, he also invited the Swiss authorities to reconsider, in view of the efforts to liberalize agricultural trade in the Uruguay Round, the provisions on agriculture in Switzerland's Protocol of Accession to the GATT.

145. Swiss federal legislation was very tolerant of subsidies and, as the GATT Secretariat had noted, subsidization by the cantons was on the upswing. The United States representative expressed hope that Switzerland eliminated tariffs and subsidies in all sectors, as it had done in the industrial area.

146. While significant steps had been taken to reduce business concentration in cartels, particularly in the banking sector, these continued to play a major rôle in several areas. Since cartels worked against Switzerland's stated policy of promoting transparent and open markets, he wished further initiatives would follow.

147. In the procurement area, the Secretariat report had pointed to discriminatory practices by the cantons, such as domicile requirements and selective tendering. These practices could hamper trade and serve as the basis for discriminatory treatment. He thus hoped they would be eliminated in the near future.

148. The United States representative also urged Switzerland to reform trade practices in the telecommunications sector. Under current law, all services were exclusively reserved to the PTT monopoly and procurement of telecommunications equipment was made on a non-competitive basis. He noted that legislation with the aim of modestly liberalizing value-added services was underway and sought more information on its present status.

149. The representative of Japan expressed appreciation for the low level of tariff- and non-tariff protection for industry. However, Swiss agriculture was shielded by a number of quantitative restrictions and tariff peaks. While acknowledging that these restrictions, as well as export subsidies and further measures, were based on Switzerland's Protocol of Accession to the GATT, he wished they would be reduced or eliminated as far as possible. The Japanese representative was also interested to learn what the Swiss authorities intended to do against current inflationary

pressures and, in this context, what importance they attached to a further dismantling of cartels and a reduction of support for agriculture.

150. The representative of Hungary referred to the fundamental differences between Switzerland's policy approaches towards industry and agriculture. State intervention in industry was geared primarily to promoting basic research activities and supporting regional adjustment. Border protection appeared to be low in general. He welcomed the fact that Switzerland did not in principle apply quantitative restrictions on imports of manufactured goods and that it had refrained from participating in any voluntary restraint agreements. However, he could not endorse the statement, in the Government report, that Switzerland's system of specific duties was better adapted to the requirements of the political situation than ad valorem duties. It was not clear at all what kind of political situation was referred to in this context.

151. He appreciated the Swiss authorities' recent decision no longer to apply the price certification system to textiles imports from Hungary. Referring to the increasing importance of outward processing activities in this sector, as noted in the Secretariat report, he expressed concern that products processed in Hungary on the basis of EFTA inputs were currently not eligible for free entry into the EC. He hoped that a favourable solution could be found in the context of a European Economic Area and in the negotiations on free trade and association agreements.

152. In these negotiations, the EFTA countries were seeking rather tough commitments from Hungary with respect to competition policy. Against this background, he found it particularly interesting what the Secretariat had written about the respective Swiss policies and practices.

153. The Hungarian representative also pointed to the wide variety of support measures for Swiss agriculture. As a traditional supplier of agricultural products to Switzerland, Hungary was seriously affected by these measures. He acknowledged, however, that recent initiatives by the Federal Department of the Public Economy were aimed at establishing new support mechanisms. He hoped that a positive outcome of the Uruguay Round would facilitate the reform process.

154. The representative of the European Communities noted that Switzerland's new Cartel Act of 1986 was a positive step and welcomed that it had reinforced the powers of the Cartel Commission. However, cartels which were not deemed, on balance, harmful could still be condoned. The wide range of cartels, almost a general feature of the Swiss economy, was very likely to affect market access.

155. He also expressed concern about various practices and regulations that impinged on factor movements, for example shareholding limitations by large companies, restrictions on the acquisition of real estate and impediments

to the free movement of persons. These restrictions had an impact on domestic cost structures and, hence, competitiveness and economic growth. Reforms were thus in the country's best own interest, quite apart from their positive effect on the international economy.

156. The representative of Egypt wished to know whether Switzerland had concrete intentions to reduce or eliminate import restrictions on certain agricultural products, such as seasonal tariffs and seasonal quotas on fish and chilled tomatoes, and licensing requirements and quotas on fresh vegetables. He also sought further information on Switzerland's export duties on non-ferrous metals scrap and the export restrictions on ferrous metals scrap.

V. COMMENTS AND RESPONSES BY THE REPRESENTATIVE OF SWITZERLAND

General economic situation

157. A number of delegations had expressed concern about current economic conditions in Switzerland. The representative of Switzerland therefore wished to elaborate on certain key points for a better evaluation of the country's economic health.

158. Since 1983, the Swiss economy had experienced the longest period of continuous growth since the Second World War. Although clearly below the OECD average, growth rates had been comparable with other European OECD countries. They were close to the potential rates which, for the Swiss economy, were estimated by the OECD at 2½ per cent. The growth process had been characterized by high investment, reflected in productivity increases, and by record levels of capacity utilization. Unemployment had been very low; it had even fallen below 1 per cent in 1986.

159. During the second half of 1990, after a phase of overheating, economic expansion had slowed down. A recession had followed. GDP had declined during the first two quarters of the current year and unemployment had increased. The recession had its roots in the cooling down of most OECD economies. It had been relatively moderate.

160. Inflation, which had remained clearly below the OECD average until 1988, exceeded 6 per cent at present. This was one of the principal concerns to the Swiss Government and the Swiss National Bank. Its main causes were the general overheating of the economy in the late 1980s and a too expansive monetary policy in 1988. The introduction of new regulations concerning the liquidity requirements of banks and the establishment of a new system of inter-bank clearing, which had greatly reduced money demand, compounded the National Bank's difficulties in controlling the money supply.

161. Since autumn 1988, monetary policy had been significantly tightened. This had contributed to slowing down economic activity and should eventually restrain inflationary pressures. The effects were beginning to be felt. A deceleration in the Consumer Price Index was expected towards the end of the second half of 1991 or in the first half of 1992.

162. Unemployment, now again above 1 per cent, was still very low by international comparison. The labour market had been very tight and the present situation, while one of concern, was more normal. Unemployment was expected to rise in the coming months, as in most OECD countries. A revival of the Swiss economy, possibly towards the beginning of 1992, would depend primarily on the international economy. The economic recovery was expected to be moderate.

163. While the Swiss economy was facing some cyclical problems, this did not justify hasty conclusions regarding a deterioration in competitiveness. The Swiss economy had more than once proved its strong ability to adapt and react, and there was no indication that it had lost this source of strength.

#### Regional orientation of trade

164. Highly aggregated customs statistics could give a misleading picture of the Swiss economy's integration into the world economy. They seemed to suggest that trade flows were increasingly concentrated on western Europe, to the detriment of other countries, in particular developing countries. In this connection, the Swiss representative reiterated the difficulties in interpreting customs statistics which he had already addressed in his introductory remarks. There was a need for more refined analysis at the individual product level. Direct investments abroad had, moreover, operated as substitutes for trade.

165. A major decline in real commodity prices, not least oil prices, in the past decade had a direct impact on the capacity of affected producers to import. In addition, saturation effects were discernible in the Middle East, especially in Saudi Arabia and the Gulf States which had proved particularly dynamic during the 1970s. Many Latin American and African countries had been affected by the excessive indebtedness of the 1970s and by macro-economic policies which could be described as self-defeating in terms of growth and development. More recently, central and eastern European countries had suffered from a gradual erosion of their financial capacity and a general crisis of their economic system.

166. It was therefore not at all surprising that Switzerland's trade with these countries had stagnated or even declined, while remaining at a respectable level with its European neighbours. In contrast, it was quite normal for a liberal economy which was based on individual decisions that external trade flows reflected the capacity and dynamism of foreign partners, irrespective of their geographical location.

#### Future relations with central and eastern European countries

167. The EFTA countries, including Switzerland, were currently negotiating free trade agreements with Hungary, Czechoslovakia and Poland. These agreements would serve as a basis for future trade expansion. They were intended to complement the results of the Uruguay Round in leading to an intensification of trade and a strengthening of multilateral rules.

The concept of subsidiarity

168. The Swiss representative noted that his comments on the concept of subsidiarity, a basic principle in Switzerland's economic and political life, had apparently caused some misunderstanding. The concept covered economic and political aspects. In economic life, subsidiarity meant that the State intervened only as a last resort, when private enterprises could no longer find ways of solving problems in a given market. Accordingly, Swiss exporters were expected to compete without prior Government support and to settle any difficulties with the authorities of importing countries by themselves. In the event of failure, however, they had two options: to abandon the market or to convince the Swiss Government to intervene. Yet, the concept of subsidiarity did not mean that the State would provide solutions in all cases and come to the help of all enterprises in trouble.

169. In the political field, competence had been delegated from the local level to the cantonal level and from the cantons to the Confederation. This had occurred only gradually and only where such delegation proved more efficacious. It always gave rise to a particularly intensive political debate.

Competition policy

170. When assessing the situation of competition in Switzerland, a national preference for compromise and consensus, both in the political and economic field, should be taken into account. It was part of the Swiss way of thinking.

171. The focus of attention should not be confined to industry and agriculture, but include services which represented about two-thirds of Swiss economic activity. The Cartel Commission had looked into many services markets, including banking, insurance and the media, in particular newspapers. In services, competition did not always work the same way as in industry, some markets had their own specific mechanisms, and it was necessary to take these into consideration.

172. Switzerland was sometimes considered to be the paradise of cartels. This assumption, however, was mistaken. Things had changed considerably in recent years; the barriers to market access that had been criticized by the Secretariat and by many delegations were virtually non-existent.

173. Switzerland had been highly cartelized in the 1930s and 1940s. At that time, cartels had been very influential, with powers to impose sanctions against members who did not respect arrangements and measures to deter outsiders. But with the opening of frontiers after the Second World War, many cartels had vanished, to the point that there were not many left today.

174. One of the first big cartels to disappear, in the late 1960s, had established and enforced retail prices. Later, the relatively powerful chocolate cartel had foundered after major distributors had set up their own chocolate factories. In 1991, the beer cartel had been dissolved, as mentioned in the Secretariat report. In addition, a cartel of newspaper publishers was about to disappear. The two latter cases reflected the fact that, once there were diverging interests between small and large companies within a cartel, consensus became impossible and the arrangement was bound to collapse.

175. The Cartel Commission had reviewed virtually all cartels that existed in Switzerland. The cement market and problems related to health insurance companies were currently under investigation. He could not confirm, however, the existence of an effective cartel on coal, contrary to a delegation's statement during the discussion. There was indeed an association with the aim of defending the interests of the coal industry, but coal had virtually no significance as a fuel in Switzerland. The Swiss cement makers, who accounted for half of the domestic coal consumption, had never joined this association.

176. The last big cartel with the power to impose sanctions concerned the sale of pharmaceuticals. This had been accepted by the Cartel Commission on the grounds of public health. Free markets in this sector, and in particular free advertisement, would have entailed a serious risk of abuse. In the end it would be for the society as a whole, and not for the companies, to bear the costs. It was important to note, however, that the cartel served only to ensure compliance with the prices set by individual manufacturers and with sales margins. The producers were free to decide on prices and marketing policies. Foreign manufacturers were allowed to participate in the cartel and, in fact, a number of foreign producers actually did.

177. While cartels as such were no longer a problem on the Swiss market, the Cartel Commission was particularly concerned about economic concentration and the market power of big firms. There were a number of oligopolies and a few monopolies, for example in newspaper distribution. When oligopolies were open, competition was lively and fierce. This was the case in retail trade. In this area, however, a new problem had emerged, namely that of customers who were more powerful than their suppliers. This was particularly worrying since, in order not to lose contracts, affected companies did not complain to the Cartel Commission. Yet, this was a general phenomenon in all OECD countries and not only in Switzerland.

178. Tacit arrangements among oligopolies were particularly dangerous. Such arrangements were relatively easy to make, for example by means of a telephone call, and extremely difficult to prove. A case in point was the petrol market. There were seven major companies in Switzerland which tended to increase prices virtually in parallel, and it was difficult to

determine whether they were reacting to price movements in Rotterdam, the reference market, or whether there was collusion. Yet, collusive practices in general could not do much harm because there were often outsiders.

179. It could be observed that foreign producers tended to set prices on the Swiss market considerably higher than on their domestic markets. However, they did this in the absence of any cartel, simply because the Swiss market was a rich one and, as a matter of marketing policy, prices were adapted to purchasing power. Nevertheless, it was worth stressing that independent distributors had brought down prices by means of parallel imports. Perfume was a case in point.

180. Referring to questions by other delegations, the Swiss representative said that he was not aware of any studies on the costs of cartelization in Switzerland. In his view, cartels could not have important effects on economic structures. When cartels disappeared, they were usually replaced by large firms. As a general feature, however, it should be borne in mind that a large number of small- and medium-sized companies continued to compete in Swiss markets.

181. State-protected cartels were really worrying because they did not evolve and adapt to market developments. They should be fought against as effectively as possible. One such cartel had had very serious consequences, in the watch- and clock-making industry in the 1970s. The watch-makers had missed the trend towards electronic watch-making, with the result that some watch-making areas had experienced a considerable decline in employment and population, in particular in the Jura region.

182. The focal criterion for assessing cartels was to be found in Article 29 of the Cartel Act, which established the concept of efficient competition. This was obviously an empirical concept, like many things in Switzerland. The Article distinguished between two situations that were to be judged differently, either the absence of competition or a situation of limited competition. In the former case, it was extremely difficult to justify a cartel and the relevant criteria were extremely strict. In the second case, the specific situation and the various economic and social interests involved would have to be weighed up.

183. The Swiss representative argued that in the Secretariat report, and also in some statements during the meeting, too much emphasis had been placed on the abuse principle that was underlying the Swiss Cartel Act, as against the prohibition principle. There appeared to be a basic assumption that a general ban on cartels was much better than the examination of cartels for possible cases of abuse.

184. It was interesting, in this context, that one delegation had urged Switzerland to adopt a progressive system. However, he wondered what the notion of progress really meant, whether it implied, for example,

maximising the output of material goods or improving the quality of life. Some twenty years ago, Switzerland had been a consumer society. However, objectives stressing the quality of life and of the environment had since become increasingly important. The Cartel Act made it possible to respond to these developments and to take account of the full range of economic and social motives. This basic concept was already embodied in the Swiss Constitution and, accordingly, Swiss law took account not only of the interests of consumers but also of more general interests. These were not necessarily identical.

185. There were no important differences in substance between Swiss competition law and that of the European Communities, except for the area of mergers. It was difficult to say to what extent Swiss legislation would have to be revised in order to bring it into line with EC law. In practice, however, big Swiss companies that operated abroad were already now subject to EC legislation and had to take account of EC policies. The fine recently imposed on Tetrapak was an example.

186. There had been one case, thus far, of cartel-related trade frictions between the EC and Switzerland. It concerned fittings for waste-water disposal. The case was currently examined jointly, in accordance with the relevant procedures of the Free Trade Agreement of 1972.

187. The Secretariat report had rightly mentioned that the Cartel Commission did not have legal means to search the premises of firms. However, the Cartel Act empowered the Cartel Commission to require the parties involved to disclose information.

188. In the context of revising the Cartel Act in 1986, the Swiss Parliament had deliberately refused to establish a cartel register. Nevertheless, the Swiss economy, due to its small size, was sufficiently transparent for any foreign manufacturer who wished to enter. Furthermore, since the majority of the cartels or cartel-type arrangements was informal, it would have been virtually impossible to list them in a register.

189. As noted in the Secretariat report, the Cartel Commission was afforded the possibility of criticizing legislative texts. This provision was quite rare for a cartel legislation and, in this sense, Swiss Law could indeed be considered progressive. The provision had proved very useful in practice, and the Cartel Commission often intervened to ensure that State rules did not go beyond their intended objectives. At present, the Commission was examining a Federal Ordinance, relating to the motor vehicle sector, which contained a provision that virtually ruled out parallel imports. The Commission had also criticized certain limitations in a draft law on film imports.

190. The Swiss representative noted that the GATT Secretariat, as well as certain delegations during the meeting, had pointed to the limited staff of

the Secretariat of the Cartel Commission. Steps were being taken to improve the situation.

191. As regards the delimitation of competence between cartel policy and price surveillance policy, he explained that the Price Inspector had auxiliary or supplementary functions. The Inspector intervened only on markets where competition was not working properly.

192. Recommendations by the Cartel Commission were often accepted spontaneously by the members of a cartel, without requiring a decision by the Federal Department of the Public Economy. Similarly, the Commission's study on procurement practices by the cantons and communes, which was referred to in the Secretariat report, had already prompted changes. Cantonal and communal authorities were aware of the need for reform. It was also interesting to note that some other countries were beginning to show interest in studies by the Swiss Cartel Commission. For example, the German Monopolies Commission had sought further information on the Cartel Commission's analysis of the Swiss market for heating energy and, in particular, on its approach towards the difficult problem of competition among energy networks.

193. Referring to possible effects of cartelization on international trade, the Swiss representative stressed that he was not aware of any important cases where a cartel had prevented imports. He would be happy if the GATT Secretariat or any delegation could give specific examples. For instance, the beer cartel, once one of the biggest Swiss cartels, had never been able, even at the height of its powers, to prevent a major Swiss distributor from importing foreign beer. Contrary to intimations by one delegation, he could not confirm the existence of access barriers to the brewing and beer market. The distribution of newspapers was indeed dominated by two monopolies, one Swiss German and one Swiss French. This situation was more or less justified on the grounds of rationalization and in view of the difficulties with unsold copies. The Cartel Commission had received assurances, however, that all titles on the market would be accepted and sold without discrimination.

194. Problems related to standardization had given rise to several interventions by the Cartel Commission. In 1990, there had been an interesting case concerning kitchen units where Swiss-specific standards operated against imports. However, the Swiss standards had been established prior to the international standards and they went much further. The Commission had, nevertheless, invited the Swiss kitchen manufacturers to adjust to the international standards in order to allow for import competition.

195. Referring to ongoing efforts to deregulate the telecommunications industry, the Swiss representative mentioned that the Cartel Commission had been involved in preparing the new Telecommunications Act. The Commission

had given its opinion on the Act and was currently examining Ordinances relating to the telecommunications market.

### Agriculture

196. The Swiss representative recalled that, along with economic objectives, Swiss agricultural policy was required to pursue some non-economic or non-commercial goals. These included security of food supplies; protection of the soil, the landscape and the environment; preservation of a peasantry-based agriculture; and contributions to decentralized settlement structures. Such tasks were not, or only partly, compensated by the market.

197. While agricultural policy instruments were often criticized in Switzerland, there was a very large consensus about the justification of the basic objectives. For farmers to be able to fulfil their multifunctional tasks, an appropriate income, comparable to that in other sectors, had to be ensured. This was, at least in part, a responsibility of the State.

198. The Swiss representative doubted that the objective of food security had lost its importance in view of recent political and economic changes. For Switzerland, it remained one of the key elements of national sovereignty in times of crisis. However, modalities of that policy had to be adapted. The concept of supply security included the preservation of a production base, of land, seeds and know-how, in anticipation of a crisis. Since wine and cut flowers contributed to well-being in difficult periods, both products had been included in Swiss agricultural legislation, comparable to other countries. By reserving land for these two products, surpluses in other sectors were prevented.

199. Imports catered for one-third of Switzerland's food requirements. Per capita consumption of foreign agricultural products approximated Sw F 1,000 per annum, one of the highest ratios worldwide. In tropical products, Switzerland ranked fifth in per capita imports. However, the preservation of a multifunctional agriculture also required that peasants had appropriate farming opportunities. Furthermore, the small size of Switzerland, with no more than 6.5 million people, placed a natural limit on consumption.

200. Agricultural policies were indeed under intense discussion in Switzerland, for manifold reasons. These included external factors, such as the Uruguay Round and European integration, and the need to stop or even to reverse widening price disparities between the Swiss and neighbouring markets. Internally, the increased ecological sensitivity of the population and the rigidities and costs of agricultural policies were important factors.

201. As in other countries, agricultural policy reform was a long-term process. Certain measures had already been taken, others were being prepared, and still others were at the discussion stage. Agricultural structures had been adjusted continuously and established policies had been changed as much as possible. For example, as early as 1977, Switzerland had introduced milk quotas to stabilize dairy production.

202. Future policies would largely depend on the results of the Uruguay Round and on the development of Switzerland's relations with the EC. It was imperative to co-ordinate domestic reforms with external exigencies in order to avoid a sequence of drastic adaptations in a brief period of time.

203. Current reform efforts included:

- (i) A more restrictive pricing policy. For some years, there had only been moderate price increases, if at all. In some cases, prices had even been reduced (sugar, grains).
- (ii) A revision of agricultural legislation. In June 1991, the Swiss Parliament had approved the following elements:
  - (a) financial incentives for the cessation of farming on land under crop rotation;
  - (b) support for the extensification of production, e.g. of cereals;
  - (c) compensatory payments as a substitute for production-related support in regions with difficult farming conditions;
  - (d) limitations on price guarantees and contributions of producers to the costs of marketing.
- (iii) The introduction of direct compensatory payments. The Swiss Government would shortly submit to Parliament proposals for supplementary payments of a general nature, not linked to output, and payments for production and farming methods which were particularly friendly to the environment. This new policy orientation was geared at agricultural activities that took better account of market conditions, of international developments and of ecological requirements.
- (iv) Substantial tariff reductions and a partial tariffication of non-tariff measures, including a number of tropical products. Switzerland had made such an offer in the Uruguay Round; this was a concrete step which took into account the requests of many trading partners. In addition, the tariffication of red wine in casks was scheduled for next year. In the longer term, the

replacement of other quantitative measures by tariffs was not excluded, depending on the results of the Uruguay Round.

204. On the whole, all these reforms placed greater emphasis on support that was not linked to output and, therefore, was neutral with respect to trade.

205. Details of the import restrictions on white wine in bottles had already been provided during the current triennial review of paragraph 4 of Switzerland's Protocol of Accession. The quota restrictions had been enacted in 1975 as an emergency measure based on Article XIX. They had been notified as quantitative restrictions since 1976.

206. The Swiss representative noted that the prise-en-charge system had also been explained in the Working Party. When the relevant conditions of Switzerland's Act on Agriculture were met, importers of specified products (oat, barley, maize and fieldbean seeds; kernel fruit; fresh berries and vegetables; onion plants; honey; slaughtered fowl; horses; acid casein; whole-milk powder) could be obliged, for a specified period, to acquire similar domestic products in proportion to their imports. The Federal Council, after having heard a consultative commission, established the relevant ratio for each product category. A similar system existed for eggs in shell and mutton. In the case of fruit, fresh vegetables and onion plants, the decision was taken by the Federal Department of the Public Economy, after consultations with experts or interested circles. Importers of oat, barley, maize and fieldbean seeds, apricots, berries, and racehorses had the option of paying a tax in order to be released from their prise-en-charge obligation.

207. It was true, as mentioned by one delegation, that self-sufficiency ratios had risen somewhat over the past twenty years. However, the current level of 65 per cent, gross, in calorie terms, was still relatively low by international comparison. The increase was primarily due to strong growth in productivity, a common phenomenon in all market economies. The only major area in which Switzerland regularly produced surpluses was the dairy sector; it was of particular importance to less-favoured regions. Switzerland exported some 60,000 tonnes of cheese per annum at subsidized prices. However, since the prices were more than 20 per cent higher than those of comparable foreign products, there was no direct competition. Also, it needed to be mentioned that Switzerland continued to import some 20,000 tonnes of cheese per annum.

208. In reply to other questions, the Swiss representative emphasized that the links between trade and the environment merited more attention. Along with its EFTA partners, Switzerland had proposed a GATT Working Party to study such aspects. Protection of the environment was one of the multi-functional tasks of agriculture. Swiss public opinion was becoming increasingly sensitive to this aspect which, consequently, was an important

factor for the Government. Ecological considerations, one of the main elements of agricultural policy reform, had to be reconciled with the need for progressive trade liberalization.

#### Export risk guarantees

209. Contrary to many other countries, export financing in Switzerland was not provided by public institutions but by private banks, at market rates. Public support, through the Export Risk Guarantee Scheme, was confined to certain guarantees for payments. The Scheme had been reformed in 1989, with the aim of introducing differentiated premiums that better corresponded to market conditions and to the risks involved. The revision had been necessary in order to ensure self-financing, the basic principle of the Scheme, in the long run.

210. The new system had become very restrictive in general. There had already been requests by developing countries to make its application less orthodox.

211. The annual deficits of the Scheme were covered by loans by the Confederation. These were repayable. While it was currently not possible to evaluate fully the effects of the 1989 reform, the Swiss representative noted that, in principle, it should enable the Scheme to repay eventually the deficits it had accumulated in recent years. There were indeed some signs that the reform was beginning to bear fruit. Between 1980 and 1989, total commitments by the Scheme had dropped from Sw F 25 billion to Sw F 8.5 billion. Accumulated loans by the Confederation had reached Sw F 1.7 billion in 1990 which was an increase of only 1.6 per cent over 1988. This contrasted favourably from the years before when the increases had been in the order of 90 per cent.

#### General System of Preferences

212. The Swiss representative confirmed that the majority of agricultural imports was excluded from the Swiss GSP scheme. He noted, however, that preferences were provided for 110 of 207 tariff items, at the four-digit level. In addition, imports of about one hundred items were duty-free for the least developed countries. Some preferences went even further than those extended to the EFTA countries, for example, in the case of summer roses and freshwater fish fillets.

213. The absence of preferences on agricultural imports hardly constituted a barrier for developing countries when compared with the EC or EFTA countries, because deliveries from the latter group were also most often subject to the regular tariffs. He also recalled that the GSP had been designed to promote exports of industrial and not of agricultural products. The aim was trade diversification instead of concentration on a specific economic sector.

214. He could not accept comments to the effect that the Swiss GSP was under-utilized by potential beneficiaries. Apart from the year of its inception, 1972, utilization of the scheme had remained stable between 35 and 40 per cent. However, this seemingly disappointing rate, the lowest among the OECD countries, was attributable to large imports of precious stones and metals. The preferences on these items were very rarely sought because of the extremely low m.f.n. tariffs of less than 0.5 per cent on average. If precious stones and metals were excluded, utilization rates were in the vicinity of 65 per cent, which was comparable to the majority of OECD countries. In this context, it should also be acknowledged that Switzerland had the lowest tariffs for industrial products among OECD countries.

215. Criticism had been made of the fact that deliveries from only five developing countries accounted for about one-half of Switzerland's total preferential imports. However, this observation, which also held for other industrial economies, mainly reflected the export structure of the countries concerned. Middle-income countries had a diversified economic base which was particularly conducive to exploiting preferential advantages.

216. As regards possible amendments to the Swiss GSP scheme in the context of the Uruguay Round, the Swiss representative pointed to its unilateral and autonomous character. Hence, the scheme was not negotiable in the Round. Switzerland could nevertheless assure its trading partners that adjustments would be made in order to avoid an erosion of preferential margins.

#### Textiles

217. Referring to a statement by the Hungarian delegation, the Swiss representative confirmed that textiles products processed in Hungary on the basis of EFTA inputs, did not qualify for preferential treatment when imported into the European Communities. In the context of the negotiations on a European Economic Area, the EFTA countries had requested the EC to eliminate this discriminatory measure. He hoped that Hungary would obtain a positive response from the EC.

218. The Swiss representative reiterated that, for reasons mentioned in the Secretariat report, customs statistics did not necessarily reflect real developments. It also needed to be recalled that, in a market governed by supply and demand, it was only the consumer who decided. Reflecting the comparatively low levels of m.f.n. tariffs in Switzerland, even in this area, the preferential margins for developing suppliers were less pronounced than in other importing countries. This might have affected their market position. Overall, import penetration in the clothing sector was close to 90 per cent.

### Regional policies

219. The various regional policy instruments and their application were well described in the Secretariat report. Two developments - growing income disparities between urban and mountain regions during the 1970s and structural problems resulting from the 1975 recession - were at the root of Switzerland's current policy schemes. One was in favour of the mountain regions and the other of regions facing structural problems. In order for a region to qualify for the former scheme, 50 per cent of the territory had to be mountainous, and it had to account for 20 per cent of the population. Additional criteria such as the availability of infrastructure were aimed at ensuring a minimum impact of the aids granted. The scheme for regions with structural problems required, among other criteria, that 20 per cent of all jobs were concentrated in one branch.

220. It was true, as stated by the Secretariat, that a certain discretion was involved in the application of both schemes. This was due to the fact that enterprises in the regions did not automatically qualify for support. Rather, decisions were taken case by case which also helped to explain the very modest level of regional aids in Switzerland, no more than Sw F 6.2 million in 1990. Since the policy was based on general criteria and not on sector-specific considerations, it minimized the potential for trade distortion.

### Subsidies

221. The Swiss representative expressed surprise that several delegations had emphasized the canton's large margins for manoeuvre in the field of subsidization. Subsidies by the cantons, some Sw F 47 million, were less than 0.01 per cent of Switzerland's GDP. Nine of the 26 cantons did not even have a subsidy scheme. In 1989, the Canton of Zurich spent a total of Sw F 48,000 on subsidies; the Canton of Vaud granted no more than Sw F 3 million. Even if the cantons had considerable autonomy, they lacked the financial resources to exploit it fully.

222. According to the Secretariat, the legal possibilities of the cantons to grant subsidies were greater than those of the EC member states and their regions. However, he thought that this comparison did not withstand examination because Switzerland did not pursue an industrial policy. The possibility that the cantons could economically afford massive subsidization was no reason to suspect they actually did.

### Standards

223. Reference had repeatedly been made to a number of national standards and regulations which, according to the Secretariat report, appeared to impede market access. The Swiss representative emphasized that a clear distinction had to be made between standards, which were within the private

domain, and technical regulations, which were set by the State for reasons of security, health and the like. Switzerland's legislation in the standards area was among the most liberal. For example, as distinct from other European countries, it did not provide for an acceptance procedure. Some 80 per cent of Swiss standards were equivalent to international, European or other national standards.

224. With the possible exception of motor vehicles and tractors, technical requirements did not prevent direct imports by consumers. He rejected the suggestion that industrial-policy considerations had influenced the drafting of national standards and regulations since Switzerland had no industrial policy. It was only in the area of food legislation that policy considerations, related to agriculture, could have played a marginal rôle. A forthcoming revision of the relevant legislation would, however, clearly separate the spheres of standards and agricultural policy.

225. Reference had also been made of kitchen units and equipment, with the claim that national standards hindered market access. Here again, there was a tendency to underestimate market needs: private firms had recognized that international standardization in this sector did not by any means ensure compatibility of equipment. In order to widen market access and to provide for the inter-changeability of all equipment, they had agreed on certain national standards. Hence, this example to prove access barriers was badly chosen. He acknowledged, however, that in the area of electrical machinery Switzerland still required more stringent certification than other countries. Liberalization was scheduled for 1993, within the context of European integration.

#### Government procurement

226. Switzerland was a party to the GATT Government Procurement Code. He regretted that so far most GATT contracting parties had not joined the Code. Swiss national legislation on procurement was consistent with the relevant obligations. Moreover, all trading partners were treated in a non-discriminatory manner, whether or not they were parties to the Code. Also, contrary to legislation in certain other countries, there were no provisions which discriminated between foreign and domestic suppliers. The relevant Ordinance stipulated that the contract was to be awarded to the bid with the best quality/price ratio.

227. At present, the GATT Code did not cover procurement at the regional and local levels which, in Switzerland, was the responsibility of the cantons. Switzerland was playing an active part in the current negotiations aimed at improving and broadening the Code and extending it to procurement of services. It had made a concrete offer to liberalize procurement in the telecommunications area. Switzerland was also in favour of including regional and local entities.

228. The Swiss representative said that the requested figures on the share of direct imports in total procurement for 1980, 1985 and 1989 were not available. As regards origin requirements, he remarked that Switzerland did not demand certifications of origin in the procurement context. The origin of the goods was irrelevant for awarding contracts. Further questions concerning the compatibility with ISO standards of technical specification in tender documents would be clarified bilaterally.

#### Telecommunications

229. A new Telecommunications Act would come into force in 1992. It would introduce deregulation measures and improve competitiveness in the sector. The PTT monopoly over terminal equipment would be completely abolished. Subject to approval by the new Federal Communications Office, anyone could then sell terminals on the Swiss market. The office would be responsible for all regulatory aspects, separately and independently from the PTT.

230. The monopoly on value-added services would also be lifted and any such service could be offered without formal approval procedures. This included basic services, with the exception of telephone. Concessions would be granted to private firms for radio and satellite-communication networks. Leased lines could be sublet to third parties. These steps were Switzerland's contributions to the Uruguay Round negotiations of initial commitments in services; they would form part of a revised conditional offer to be submitted shortly.

231. Even before the entry into force of the new law, Switzerland had already made some liberalization efforts. Since 1 January 1988, only the first telephone had to be rented from the PTT, additional terminals could be bought on the private market. Approval costs for telephones had averaged US\$1,850, and for telefax and modems US\$850. There was no longer any such amount as US\$8,000 cited in the Secretariat report. The average processing period was currently about two months, or three months at most.

#### Film imports

232. The forthcoming revision of federal film legislation would take into account the parameters established by the GATT, the OECD and European law. It would entail significant deregulation, including in particular the elimination of quotas. The Swiss Government was currently considering the results of consultations in which the cantons, political parties and interested groups had given their views. Eighty-seven replies had been received and there was general agreement on the need to revise the import régime.

### Aspects of the tariff régime

233. The Swiss representative noted that each tariff system - specific or ad valorem - had its pros and cons. The reasons why the Federal Council had decided to maintain the present system were given in the Secretariat report. Since tariff averages were already very low - two-thirds of imports entered under duties of less than 2 per cent - the current system did not really have a decisive effect; even cheap and heavy goods were assessed only a minimal duty.

234. The comparison, made in the Secretariat report, of the dispersion of Swiss tariffs with those of the EC was questionable. The EC simple average tariff, 5 per cent, was more than double that of Switzerland. While it was true that no more than half of the tariffs on agricultural and food items were bound at present, it needed to be remembered that, overall, over 90 per cent of the tariff lines were bound.

235. If there was tariff escalation in textiles or any other sector, this was the result not of deliberate policies but rather of the structure of the Swiss tariff. Escalation was one of the main reasons why Switzerland, in the Tokyo Round, had advocated the harmonized reduction of tariffs. In 1988, Switzerland's weighted average tariff for textiles items had been 7.2 per cent, which was by far the lowest among all importers and most exporting countries. Nevertheless, Switzerland had made a substantial offer in this area in the Uruguay Round on the basis of a strongly harmonizing formula. To be able to maintain this offer, equivalent contributions were expected from trading partners.

236. Restrictive effects of high tariffs on chocolate confectionery had been criticized by the United States. These tariffs were composed of a fixed and a variable element. The former amounted to Sw F 10 per 100 kg; it had been eliminated for the EC. In the Uruguay Round context, Switzerland had offered to eliminate it also for other exporters which would then create non-discriminatory conditions. The variable tariff element had been established as a compensating system because of the high prices for agricultural raw materials in Switzerland. Similar systems were used in many countries in order to ensure the competitiveness of food producers. Any re-examination would have to wait until the parameters of the agricultural negotiations in the Uruguay Round were known.

### Rules of origin

237. The determination of origin was based on the criteria of sufficient working and processing. In specifying these criteria, Switzerland's autonomous rules of origin provided for a choice: Swiss origin status was either conferred on the basis of valued added, which meant that the value of all foreign materials must not exceed 50 per cent of the ex-works price of the final product, or depending on the change of tariff heading. The

latter criterion required that the tariff classification of the final product at the four-digit level was different from those of all components. A separate list specified certain exceptions. In general, the final substantial processing stage for obtaining the product was the decisive one.

238. Switzerland's contractual rules of origin were laid down in the Stockholm Convention and in the Free Trade Agreement with the EC. They were interpreted by the competent bodies under these agreements. The negotiations on a European Economic Area did not aim at creating new rules but to simplify existing requirements. There was thus no need for any transitional arrangements.

## VI. CONCLUDING REMARKS BY THE CHAIRMAN

239. As usual, these concluding remarks aim at highlighting the most salient points raised during the trade policy review of Switzerland. Presented on my own responsibility, they are not intended to substitute for the collective evaluation and appreciation by the Council of Switzerland's trade policies and practices. Full details of the discussion will, as usual, be reflected in the minutes of the meeting.

240. Council members commended Switzerland for its important rôle in the GATT system and in the Uruguay Round. It was recognized that the country's economic strength and vitality derived to a considerable extent from its high degree of integration in international trade. For some members, Switzerland was a model of economic development and stability which merited closer emulation. By the same token, it was emphasized that the country's economic achievements involved a particular responsibility for maintaining and strengthening the multilateral trading system.

241. Switzerland's trade policy in the industrial sector was outward-oriented, transparent and predictable, based on a well-structured system of clear rules. This open approach had proved of benefit to the adjustment of Swiss industry and was considered a central element in the country's leading economic position.

242. In ad valorem terms, average tariff levels on industrial products were the lowest in the OECD area. Moreover, there were almost no quantitative restrictions or licensing requirements, except for reasons of health and environmental protection, national security and the like. Some members, however, pointed to the distortions inherent in Switzerland's exclusive reliance on specific duties, which contained a systemic bias against relatively cheaper and heavier imports. There were also tariff peaks, for example on textiles and clothing.

243. Members also commended Switzerland for never having used safeguard measures under Article XIX, or anti-dumping or countervailing duties, on industrial products. Nor had Switzerland, although a signatory to the MFA, concluded any restrictive bilateral agreements or implemented unilateral quantitative measures under the Arrangement. In addition, Switzerland had refused to undertake any export restraint arrangements on industrial products and had refrained from launching any such initiatives.

244. Attention was drawn to the low share of m.f.n. in overall trade. More than four-fifths of Switzerland's total imports came from preferential sources. In the context of European integration, this share was expected to rise even further. While not calling into question Switzerland's support for the multilateral system, members suggested that the longer-term implications of regional commitments for the country's basic trade policy orientation and its external repercussions should be examined more fully.

Several participants emphasised the need for the integration process to be open and predictable, and hoped that its benefits would also extend to other countries.

245. In relation to the Swiss GSP scheme, the hope was expressed that its product coverage could be extended, in particular in the agricultural area. It was noted, in this context, that Switzerland's trade with non-OPEC developing countries was in large surplus.

246. The overall level of direct State intervention, especially of subsidies to industry, was low. However, concerns were expressed with respect to the rôle of the cantons in industrial promotion and a certain lack of transparency in this area.

247. Several participants also referred to restrictive practices in public procurement, particularly by cantonal and communal authorities. Clarification was sought on rules for awarding contracts and the share of direct imports in public procurement. One member raised questions regarding the operation of the telecommunications monopoly and its effects on trade in goods and services, as well as plans for liberalizing the sector.

248. It was recognized that a very large share of new standards and technical regulations introduced by Switzerland were based on international norms. However, several participants pointed to certain trade-impeding Swiss requirements. Mention was made of the particularly high costs of type approval for telecommunications terminal equipment. Some members expected the process of European harmonization to contribute further to streamlining and rationalizing existing Swiss-specific requirements.

249. The Secretariat report had drawn particular attention to issues of competition policy, in particular to the wide variety of cartel-type arrangements in Switzerland. Many participants felt that such collusive practices undermined the low levels of tariff protection and the absence of other major trade barriers. Although the 1986 Cartel Act was a positive change, cartels as such were not prohibited, nor was their registration required. It was felt that the criteria for acceptance of cartels were vague and that insufficient importance was given to overall economic, including consumer interests. Members saw a clear difference in orientation between Swiss laws and practices in the field of competition policy and those in most other developed countries.

250. A number of members referred to the rigidities and complexities of the political decision-making process. In their view, the system tended to operate in favour of well organized interest groups, not least in the agricultural sector.

251. A concern was raised with respect to policies affecting international factor mobility, including restrictions on shareholding, acquisition of real estate and the movement of persons.

252. Clarification was sought regarding:

- Switzerland's interpretation of the concept of "subsidiarity" under which intervention could be justified if entrepreneurs could not overcome foreign trade barriers;
- the application of rules of origin, in particular the criterion of "sufficient working or processing";
- the reasons underlying the low share of developing countries in Switzerland's textiles and clothing imports, in the absence of MFA and similar restrictions;
- the justification for the continuation of Switzerland's long-standing safeguard measures on imports of white wine;
- possible changes in the Swiss citizenship requirement for ownership of cinemas and film distribution.

253. Many members pointed out that Switzerland's trade policy towards agriculture differed fundamentally from that towards industry. A wide and complex variety of trade measures was employed, including high tariffs, variable levies and supplementary charges, quotas and domestic purchase requirements (prise-en-charge system). By these measures, Swiss agriculture was heavily shielded from international price signals, at considerable cost to consumers, taxpayers and, not least, trading partners. The costs and distortions involved also affected the competitive position of the Swiss economy as a whole. Some members suggested that these were important factors in explaining why real living standards were not as high as income comparisons at current exchange rates would suggest.

254. Switzerland's agricultural policy was based on a variety of economic and non-economic objectives, such as food security as well as cultural and environmental considerations. The concept of food security, as interpreted by Switzerland, was questioned in the light of patterns of international trade and integration and its effects on competitiveness. Some members failed to see how the concept could be applied to all highly protected farm products, including wine and fresh flowers. Further clarification was also sought on Switzerland's intentions with respect to agricultural policy reform, the treatment of agriculture in the context of a European Economic Area and any resulting trade effects for third countries.

255. In reply, the representative of Switzerland said that for many years there had been continuous growth in the Swiss economy, with high levels of

investment, productivity and capacity utilization. The Swiss economy had shown great capacities for adjustment and adaptation. Unemployment and inflation had been kept low. The general world economic slowdown had affected Switzerland since the second half of 1990. The recession had been moderate, although unemployment and inflation had risen, but a recovery was expected to begin in 1992.

256. Closer integration within Europe was an important element of Switzerland's trade policy. However, statistical data overstated the concentration of trade with European partners, because of the importance of transit trade. The poor economic situation in Africa and Latin America and recent developments in eastern Europe had led to stagnation of Switzerland's trade with these areas. By contrast, trade with other European countries and the United States had been growing by between 7 and 10 per cent annually, and trade with Japan, other Asian markets and Turkey had increased even more rapidly.

257. The principle of "subsidiarity" had economic and political elements. The State would only intervene, as necessary, when exporters could no longer overcome foreign trade barriers. At the political level, the Confederation could deal only with those functions which had been expressly delegated to it by the cantons.

258. While the Swiss economy had been highly cartelized in the 1930s and 1940s, the Secretariat report, as well as certain statements by Council members, overstated the current importance of cartels in Switzerland. Most such arrangements had vanished over time under the impact of trade liberalization, increased import competition and new market entrants. The only large cartel which continued to exist served to regulate price margins for pharmaceuticals. It was tolerated for health policy reasons. Foreign companies were allowed to participate on equal terms.

259. There was no known case in recent years where cartels had been successful in barring import competition. The Swiss representative felt that collusive practices among oligopolies, which were often difficult to prove, were potentially more dangerous. The new Cartel Act of 1986 was, in substance, not fundamentally different from EC law, apart from the area of merger control. It had already proved its efficiency, for example, in dissolving cartel arrangements in the banking and insurance sectors.

260. Switzerland was not unique in having difficulties regarding trade in agricultural products. The representative of Switzerland recalled that Swiss agricultural policy contained both economic and non-commercial elements, including food security, environmental protection and the conservation of small-scale agriculture. Food security was regarded as an element of Switzerland's sovereignty in times of crisis. The concept included the maintenance of an adequate basis for production in terms of

land, seed and know-how, as well as the contribution of agriculture to social well-being, inter alia, through the production of flowers and wine.

261. There was an intense debate in progress in Switzerland on agricultural policy. Both internal and external pressures were evident. However, there was a consensus on the fundamental economic and social objectives of agricultural policy. At the same time, Switzerland recognized the need to adapt its policy instruments to the progressive liberalization of international farm trade. This adaptation would be founded on four main elements: a more restrictive price policy, revision of relevant laws, the possible introduction of direct compensatory payments, and a substantial reduction of tariffs and partial tariffication of NTMs. This last element had been put forward as Switzerland's offer in the Uruguay Round agricultural negotiations. Certain tariffication measures would already be introduced in 1992. Much would depend on the results of the Uruguay Round and of Switzerland's negotiations with the EC.

262. Overall, 65 per cent of nutritional needs were covered by domestic output. However, there was only one sector (milk) in which production in Switzerland exceeded domestic demand. Cheese was exported at subsidized rates, but the export prices were still higher than those of comparable foreign cheeses. For bottled white wine, a quota had been introduced in 1975 as an emergency measure; this had been notified under Article XIX of the GATT in 1976 and was discussed regularly in the Working Party on Switzerland's Protocol of Accession.

263. Some 80 per cent of Swiss standards were in line with international norms. Standards and technical regulations were not used for industrial policy purposes and, except for cars and tractors, there were no product areas where Swiss-specific requirements could impede direct imports by consumers. The costs of type approval for telecommunications terminal equipment were now substantially lower than indicated in the Secretariat report.

264. Switzerland's Export Risk Guarantee Scheme, based on the principle of self-financing, had been revised in 1989 with the objective of introducing differential premiums corresponding better to market conditions. The new system was highly restrictive; developing countries had already approached the Swiss administration to make its application more liberal. The deficit of the system was covered by repayable loans at concessional rates from the Confederation. Spending on export guarantees had fallen from Sw F 25 billion to Sw F 8.5 billion between 1980 and 1989.

265. The representative of Switzerland noted that EFTA countries were presently negotiating free-trade agreements with Hungary, Poland and the Czech and Slovak Federal Republic which, he hoped, would be a promising basis for future development of trade with these countries and would complement the results of the Uruguay Round.

266. It was true that most agricultural products were excluded from the coverage of Switzerland's GSP scheme. However, preferences were extended on 110 four-digit items out of 207, with some duty free. Some preferences went further than those extended to the EC. Given the low level of Swiss tariffs, the absence of preferences was unlikely to be a major trade barrier and did not discriminate in favour of EC and EFTA sources, which did not receive preferences in agriculture. Utilization of GSP, if precious stones and metals were excluded from account, was around 65 per cent, comparable to other OECD countries. Similarly, it was evident that the more advanced and diversified beneficiaries would take the lion's share of GSP exports. The representative of Switzerland recalled that the GSP was originally established to assist industrial diversification in developing countries.

267. Textiles and clothing originating in EFTA countries and processed in Hungary did not benefit from preferential treatment in the EC. EFTA countries had requested the elimination of this discriminatory measure in their negotiations with the EC and he hoped that Hungary would benefit from it. The level of imports from developing countries into Switzerland depended entirely on consumer taste. In this connection the statistical distortion mentioned above was also of some relevance.

268. The representative of Switzerland recalled that disparities in income levels between urban and rural areas had grown, particularly since 1975. These disparities were at the root of Switzerland's regional policies, which were correctly described in the Secretariat report. Regional policy only defined general criteria for assistance and did not specify particular firms or economic sectors. Regional assistance was modest, at some Sw F 6.2 million in 1990.

269. In law, the cantons had a certain leeway to grant subsidies. However, there were major financial constraints. Subsidies extended by the cantons were less than 0.01 per cent of GDP and amounted in 1989 to around Sw F 47 million. Nine of the 26 cantons had no subsidy régime.

270. Federal legislation on public procurement was compatible with the relevant obligations under the GATT Code. There was no discrimination between signatories and non-signatories to the Code. In the context of the Uruguay Round, Switzerland had sought to extend the Code coverage to new sectors, including telecommunications, and to regional entities. In the telecommunications area, major steps towards liberalization and privatization were imminent, including the abolition of the PTT monopoly on terminal equipment and telecommunications services, with the exception of simple voice transmission, and the creation of an independent institution to tackle regulatory issues.

271. Switzerland's law on films was to be revised. Internal consultations were in progress to that end. There was a large consensus on the need for reform and in particular for the suppression of film quotas.

272. In reply to comments on the use of specific duties, the representative of Switzerland said that tariffs were extremely low. Two-thirds of imports entered at rates equivalent to less than 2 per cent. Even low-cost and heavy products only paid a minimal tariff. While there was some dispersion of tariffs, this must be read against the very low average level. Overall, more than 91 per cent of tariff lines, covering 93 per cent of imports, were bound under GATT. The existence of tariff escalation was one of the principal reasons why Switzerland had proposed in the Uruguay Round negotiations a harmonization formula for the reduction of tariffs. Switzerland's offer covered textiles and clothing on the basis of a strongly harmonizing formula. Switzerland expected equivalent contributions from its trading partners.

273. The concept of "sufficient working or processing" under rules of origin was applied according to two principles: value added or a change in tariff position. Switzerland could supply details on the rules of origin applicable under the free-trade agreement with the EC. The aim of EEA negotiations in this field was not to create new rules of origin but to simplify existing rules; there would, therefore, be no need for transitional arrangements.

274. In conclusion, the Council recognized Switzerland's leading rôle and responsibility in maintaining and extending an open, rule-based multilateral trading system. Switzerland's prosperity testified to the benefits to be derived from stable, outward-oriented economic policies and a high degree of international market integration.

275. The Council expressed the expectation that Switzerland, in participating in closer European cooperation, would contribute to ensuring its continuing openness to the international economy, consistent with the basic principles of the GATT.

276. The Council encouraged the Swiss authorities to pursue the liberalization of highly-protected sectors, in particular agriculture. It acknowledged the steps that had been taken in the field of competition policy and emphasised the need for continuing close links to be maintained and developed between domestic and external free trade.