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TRADE POLICY REVIEW

REPORTS BY

SWITZERLAND AND LIECHTENSTEIN

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Switzerland and Liechtenstein is attached.

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1 REPORT BY SWITZERLAND

1.1 General remarks

1.1. This report, together with that of Liechtenstein and the Secretariat report on the two countries, establishes the basis for *the review of their trade policy* by Members of the World Trade Organization (WTO) on 23 and 25 April 2013, given the fact that they form an economic and monetary union and Liechtenstein is an integral part of Swiss customs territory.

1.2. Switzerland's economic policy is a liberal one. *Macroeconomic policy* is geared to maintaining a balanced budget in the medium term and keeping prices stable. The Swiss authorities endeavour to maintain full employment and the Government is undertaking reforms in order to support sustained growth by creating investment-friendly internal framework conditions.

1.3. *International trade* continues to play *a key role in the Swiss economy*. The recession that affected the global economy following the financial and economic crisis in the last quarter of 2008 only had a modest and short-term impact in Switzerland. As of the second half of 2009, it gradually gave way to a welcome phase of expansion. Although recovery slowed down somewhat once again during the second half of 2011 and in 2012, this is mainly attributable to the effects of the strong Swiss franc and the decline in demand worldwide on export-oriented sectors of Switzerland's economy. As the Swiss economy is highly dependent on foreign trade[1], it is hardly surprising that the Swiss Government attaches great importance to global markets open to goods and services, including government procurement, and to strong protection for intellectual property.

1.4. The Government's priorities for Switzerland's *foreign economic policy* have been embodied in the *strategy* contained in the introductory chapter to the Federal Council's 2004 Report on foreign economic policy.[2] This strategy, supplemented in 2008 by a chapter entitled "Natural resources in the external economic strategy" and in 2009 by a chapter entitled "The Principle of sustainability in foreign policy", is based on *three components*. The first is to improve access to external markets and help to ensure the introduction of a coherent and observed set of international rules. The second is to improve Switzerland's competitiveness by making its domestic market more competitive, and the third is to integrate the largest possible number of countries into the global economy by assisting the economic development of partner countries.

1.5. The *first of these objectives* is to ensure that *Swiss suppliers have non-discriminatory access to markets worldwide*. For this to be achieved, on the one hand, barriers to cross-border trade such as customs or non-tariff barriers must be dismantled. On the other, in order to give Swiss exporters legal certainty and protect those investing abroad, transparent trade rules that are effective and compatible at the international level have to be drawn up.

1.6. Because international trade has historically played an important role in developing Switzerland's economy, the Government remains deeply attached to an *open multilateral trading system*. At a time when there is a growing trend towards regionalizing trade, Switzerland considers *strengthening of the multilateral trading system* to be a *priority*. In its view, multilateralism is the best way of ensuring open trade and protecting economic actors. In general, smaller countries are better able to defend their interests in a multilateral forum rather than finding themselves in a situation where there is an unequal balance of market power.

1.7. For the Swiss Government, the *WTO* has a vital role to play in the gradual liberalization of international trade, the establishment of rules to govern it, as well as in the settlement of disputes. The multilateral trading system must be made even stronger by integrating developing countries, countries with economies in transition and least developed countries (LDCs) more closely.

1.8. Since the *strategy* was drawn up in 2004, Switzerland has endeavoured to gain better access to foreign markets, particularly under the Doha Round framework and by means of free trade agreements. In spite of the continuing deadlock in the Doha Round negotiations, Switzerland

[1] Exports and imports of goods and services (not including objects of value), respectively, accounted for 49.5% and 38.7% of the gross domestic product in 2011.

[2] See http://www.seco.admin.ch/dokumentation/publikation/00004/00018/01800/index.html?lang=en.

remains firmly committed to pursuing the negotiations most likely to have a successful outcome at the WTO as a priority, including those on issues that were not originally part of the Doha Agenda. Switzerland also welcomes the adoption of a procedure to monitor the implementation of any new measure likely to be trade restrictive following the onset of the financial crisis in autumn 2008, and this mechanism has since become an integral part of the WTO's work.

1.9. The reason why Switzerland is also party to several *bilateral* or *regional free trade agreements* is that it believes them to be a complement to – and not a replacement for - the multilateral trading system in accelerating the liberalization of trade on an international scale.

1.10. Situated at the heart of Europe, Switzerland has naturally over the years developed *close economic relations with the members of the European Union (EU)*. In addition to the 1972 Free Trade Agreement, Switzerland has signed *Bilateral Agreements I and II* with the EU[3], which cover a large number of areas, namely, free movement of persons, air and land transport, agriculture and processed agricultural products, training and research, technical barriers to trade, government procurement, cooperation in matters relating to justice, the police, asylum and migration (Schengen/Dublin), taxation of savings, action to combat fraud, the environment, statistics, participation in the MEDIA programme and pensions. Since 2009, Switzerland and the EU have also signed agreements on customs facilitation and security, education, recognition of protected designations of origin (PDO) and protected geographical indications (PGI), and cooperation with the European Defence Agency.

1.11. In addition to its bilateral agreements with the EU, the 1960 Convention of the *European Free Trade Association (EFTA)*, the Free Trade Agreement with the Faroe Islands and the Free Trade and Economic Partnership Agreement signed with Japan in 2009, Switzerland has a *network of 24 free trade agreements* concluded under the EFTA framework (Albania; Canada; Chile; Colombia; the Cooperation Council for the Arab States of the Gulf (GCC)[4]; Croatia; Egypt; the former Yugoslav Republic of Macedonia; Hong Kong, China; Israel; Jordan; Lebanon; Mexico; Montenegro; Morocco; the Palestinian Authority/PLO; the Republic of Korea; Peru; Serbia; Singapore; the Southern African Customs Union (SACU[5]); Tunisia; Turkey; and Ukraine.

1.12. As there is an ongoing trend towards the proliferation of preferential agreements at the international level and in view of its economic interests, Switzerland intends to pursue its policy of concluding free trade agreements with non-EU partners. Within the EFTA framework, for example, it is currently negotiating with Algeria, Bosnia & Herzegovina, four Central American States (Costa Rica, Guatemala, Honduras and Panama), India, Indonesia, the Russia-Belarus-Kazakhstan Customs Union, Thailand and Viet Nam. At the *bilateral* level, in January 2011, Switzerland and China started negotiations on a free trade agreement between the two countries. Lastly, Switzerland and the other EFTA countries are exploring the possibility of holding negotiations with other trading partners.

1.13. As the *second objective* of Switzerland's foreign economic policy strategy, *a more competitive domestic market* is essential for two reasons. Firstly, the introduction into Switzerland of competitive structures at the international level means opening up economic sectors that are still highly compartmentalized. Switzerland does not yet take full advantage of the international division of labour inasmuch as some of these sectors (for example, agriculture or the health system) are still highly protected from foreign competition and their performance is lower than average. In the context of an ongoing trend towards overvaluation of the Swiss franc in particular, it is essential to be able to lower the cost of inputs for firms - a prerequisite for taking advantage of opportunities in external markets - and to maintain the cost of living at an affordable level both for wage-earners and for the remainder of the population living in Switzerland. Secondly, opening up protected sectors allows Switzerland to proclaim its ambitions more forcibly, thereby strengthening its negotiating capacity. This aspect is particularly important at a time when economic power is being redistributed and partners of importance to Switzerland are no longer confined to economies with similar characteristics and interests.

[3] See also the Report of the Swiss Government for the 2004 Trade Policy Review of Switzerland and Liechtenstein.

[4] Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

[5] Botswana, Lesotho, Namibia, South Africa and Swaziland.

1.14. This is why, in order to lower the high costs which Switzerland's economy has to pay, the strategy recommends opening up to foreign competition and internal reforms. These recommendations were followed in the 2004-2007 and 2008-2011 growth programmes. As far as external economic affairs are concerned, particular attention should be drawn to the internal reforms such as the revision of the Federal Law of 6 October 1995 on Technical Barriers to Trade (LETC; RS *946.51*), which introduced, *inter alia,* the Cassis de Dijon Principle and confirmed the agreement on the free movement of persons (RS *0142.112.681*) and its extension to the EU's new member countries. In agriculture, reforms were also adopted in the 1990s (including an important decoupling of direct production payments, a certain opening up of the market, especially as far as relations with the EU are concerned).

1.15. The *third objective* of Switzerland's foreign economic policy is the *integration of developing countries and countries with economies in transition into the global economy*. Through economic cooperation for development (whether bilateral or multilateral), Switzerland is trying to help its partners to reorganize their national framework conditions with a view to closer integration into the global economy and sustainable economic growth. Fostering trade, developing the private sector, stronger economic and financial policies, developing infrastructure and supply systems in cities, together with measures to protect the climate and the environment, must assist in reducing poverty and economic and social disparities in the long term and boost the rational use of resources in partner countries. The "Aid for Trade" initiative launched in December 2005 at the Sixth Ministerial Conference of the WTO in Hong Kong, China, is one example of implementation of such development cooperation. As part of this initiative, Switzerland has in particular made a stronger commitment to boosting sustainable trade.

1.16. At the multilateral level, international organizations not only engage in development activities but also exercise a degree of surveillance over the national economic policies of all countries (peer review). Switzerland's participation and its contributions to international organizations active in the economic and financial spheres (International Monetary Fund (IMF), World Bank, regional development banks, Organisation for Economic Co-operation and Development (OECD), the WTO, United Nations specialized agencies) are therefore extremely important both for Switzerland's economic development cooperation and for its dialogue with other industrialized countries.

1.17. In this context, the Swiss authorities are further supporting the broad opening up of markets to products from LDCs, action in favour of countries in the process of acceding to the WTO and enhanced technical assistance to developing countries to allow them to become integrated into the multilateral system and to develop their capacity to benefit from it. In particular, it strongly supported the agreement in favour of LDCs adopted at the WTO Ministerial Conference in Hong Kong, China, in 2005, under which industrialized countries would, on a permanent basis, give LDCs market access free of customs duties and quotas for at least 97% of their tariff lines. Switzerland has therefore allowed market access free of customs duties and quotas to all imports from LDCs.

1.18. The Swiss authorities also believe that it is extremely important to promote *consistency* among the various foreign economic policy activities and other government policies. At the internal level, the Swiss Government is ensuring closer coordination among the relevant Federal agencies and offices, including during the course of international negotiations. At the same time, it wishes to encourage the necessary external *transparency* through *information* and *participation* of the people, Parliament and the spheres concerned by the *decision-making process.* By so doing, it can be sure that the policies thus defined will command widespread *support* within Switzerland.

1.19. This report describes first of all the economic environment in which Swiss trade has developed since the previous Review of Switzerland's trade policy in 2008. It then highlights the impact which the measures taken by the Swiss Government in connection with its growth policy have had on Switzerland's overall economic development and the challenges ahead. It goes on to describe the major reforms undertaken over the past four years and those under way, as well as the other main priorities of Swiss economic policy. Lastly, it recalls the objectives sought by Switzerland at the WTO, taking into account the current deadlock in the Doha Round.

1.2 Economic environment

1.2.1 Economic and macroeconomic policy developments

1.2.1.1 Economic trends

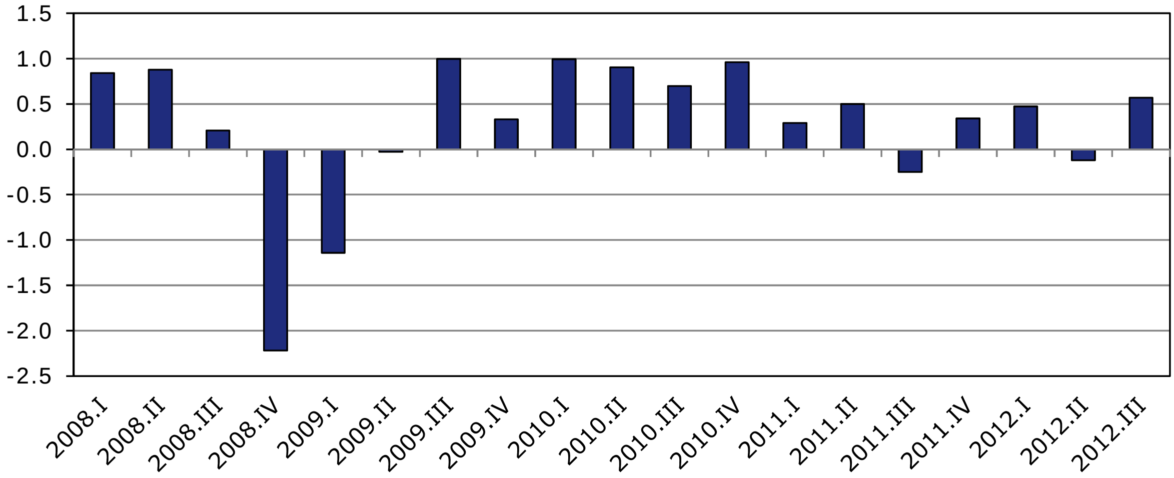
1.20. The internal economic reforms resolutely undertaken by Switzerland since 1993, the growing globalization of trade and closer economic integration with Europe, especially the effective implementation of free movement of persons within the EU and EFTA, have resulted in *the Swiss economy's rapid recovery from the global recession* that followed the outbreak of the financial and economic crisis in 2008-2009. A moderate rise in prices, low rates of interest, sound public finances and reorganization by businesses in recent years, but above all the revival in global trade, constituted the basis for strong domestic demand and an upturn in the export-led economy. From the second half of 2009 onwards, the sharp drop of 2.9% in Switzerland's *gross domestic product (GDP)* that had occurred in the first half of 2009 gradually gave way to a welcome phase of recovery in 2010 (+3%).

1.21. Nevertheless, *the emergence of the debt crisis in eurozone countries in 2010 changed the situation once again for the Swiss economy*. The fear that Greece's debt crisis would spread to other countries and, possibly, to major countries in Europe, led investors to seek safe investments such as gold, real estate, and strong currencies such as the Swiss franc. As a result, the Swiss franc rose sharply in comparison with the situation in the real economy. Moreover, since the second half of 2011, *the Swiss economy has had to face a marked decline in global demand.* Industry and tourism, two key sectors for Switzerland's economy, have been particularly affected. The financial sector, hitherto the engine driving Switzerland's growth, has been suffering since the bursting of the speculative real estate bubble in the United States. In 2011, value added in the financial sector was around 20% below the 2007 level. During the second half of 2011, the positive impetus spurring global growth of the economy only came from (private and government) consumption and investment in equipment. On the other hand, the declining trend in exports and investment in construction has had a negative impact on the trend in GDP growth. In the third quarter of 2011, GDP fell for the first time in comparison with the preceding quarter (-0.2%). Overall, in spite of a rebound in the fourth quarter, Switzerland's GDP fell back to 1.9% in 2011.

1.22. After a rise of around one half a percentage point during autumn and winter 2011-2012, Switzerland's GDP fell slightly (-0.1%) in the second quarter of 2012 before increasing by 0.6% in the third quarter, despite the slowdown in the world economy in the course of 2012. Globally, although spending on household consumption and by the government sector have continued to provide a positive impetus for GDP growth, exports of services and investment, particularly in equipment, have made a negative contribution. Overall, real GDP nevertheless rose by 0.9% in the first three quarters of 2012 compared to the same period the previous year. At the end of 2012, it is expected that GDP will stagnate at best, so that for the year as a whole, the Swiss economy should grow by only 1% in 2012 and by no more than 1.3% in 2013. For the remainder of 2012 and for 2013, economic trends therefore remain marked by the *notable diversity between sectors mainly active on the domestic market* (sectors related to consumption, construction, various services focusing on the domestic market), whose growth remains strong, and *those dependent on exports,* which are facing the need to adapt because of the continued strength of the franc and the weakness of the global situation.

Real GDP – percentage variation in comparison with the previous quarter 2008:1-2012:

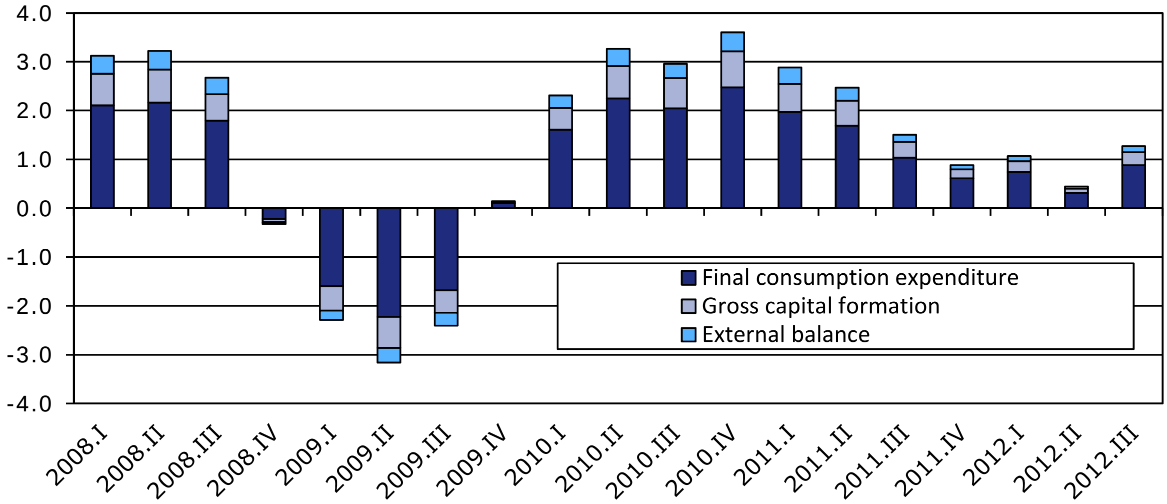
(figures adjusted seasonally in Swiss francs, linked, to prices for the previous year, base year, 2005, estimates according to ESA95)



Source: State Secretariat for Economic Affairs (SECO).

Breakdown of real GDP – percentage variation in comparison with the previous period in the previous year: 2008:1-2012:3

(figures adjusted seasonally in Swiss francs, linked, to prices for the previous year, base year 2005, estimates according to ESA95)



Source: State Secretariat for Economic Affairs (SECO).

1.23. The Swiss economy's capacity for resistance has also been apparent in the *labour market* in recent years. After the unemployment rate among the working population reached a peak of 4.2% at the end of 2009 (seasonally adjusted rate), the rebound in employment that occurred from the last quarter of 2009 onwards led to a gradual drop in *unemployment* as of early 2010. By the end of July 2011, the unemployment rate had gradually returned to 3% (seasonally adjusted rate). From October 2011 to May 2012, the number of unemployed starting to rise again. After falling back slightly in summer 2012, a reflection of the temporary revival of economic activities in Switzerland during autumn and winter 2011-2012, the unemployment rate began increasing again in October. In December 2012, it was once again 3.0% of the working population (seasonally adjusted rate). In the light of the economic downturn in the second quarter of 2012 and the low rate of growth forecast for the months to come, it can be expected that the unemployment rate will continue to rise and may reach 3.3% in 2013.

1.24. In line with its mission, the Swiss National Bank (BNS) took measures to deal with the *strong franc* in late summer 2011 by increasing liquidity in Swiss francs on the money market and by setting a floor rate of SwF 1.20 to €1.[6] But even at this rate, the Swiss franc remains extremely high and is very prejudicial to exports. In autumn 2011, the Parliament adopted a series of measures for a total of SwF 870 million in order to offset the effect of the strong franc. This programme covered investment and payments in a number of sectors, particularly unemployment insurance (SwF 500 million), innovation and technology (SwF 212.5 million), tourism (SwF 100 million) and transport (SwF 46.5 million).[7]

1.25. Swiss exports to markets outside the eurozone and to the United States have become increasingly important to Switzerland. Performance in many of these markets is dynamic despite the global situation, which remains bleak: some in fact also have a currency that has risen against the euro and the dollar since 2009.

1.26. The Swiss economy will have to become accustomed for a long time to a currency that tends to be strong. Switzerland will therefore only be able to deal with the situation if it manages to retain its strong points in the long term, namely, financial stability, high-quality training, a high level of research and technology, low taxes and business-friendly framework conditions. This is why its objective must remain promotion of the Swiss work place and innovation and full employment for all categories so as to bolster the middle class and maintain social cohesion.

1.2.1.2 Foreign trade[8] and current balance

1.27. Negatively affected by the global financial and economic crisis that erupted in autumn 2008, *Switzerland's foreign trade* experienced its worst downturn for decades in 2009. After a record high in 2008, *exports* and *imports* of goods in fact plunged by 14.3%, respectively 9.9% in real terms in 2009, thus returning to their 2006 level. For exports, this was the largest fall recorded over one year since 1944 and, for imports, since 1975. The trend only started to be reversed at the end of 2009. As to the *trade balance*, it ended 2009 with a surplus of SwF 20.3 billion, an increase of some SwF 0.7 billion in comparison with 2008.[9]

1.28. After the downturn in 2009, *exports of goods* (+7.4%) recovered in 2010 in real terms, taking advantage of a strong increase in global demand, particularly from Asia, even though the volume remained lower than the 2008 record high. For eight export sectors out of ten there was a return to the black, with the clocks and watches and metalworking industries, whose sales rose by one fifth, showing the most impressive increase. Other industries ranged from -18 to +8%. The trend in the Swiss franc exchange rate nevertheless compelled many exporters to lower their prices and, consequently, their margins. Imports of goods rose by 9.4% in volume terms. In 2010, the rising trend in imports turned out to be more sustained than that for exports, probably attributable, *inter alia,* to the higher Swiss franc. Although Switzerland's trade balance recorded increasingly positive balances up to 2009, in 2010, for the first time since 2005, there was a slight dip in the *trade surplus* to SwF 19.5 billion, which can be explained notably by the growing deficit with the EU (especially Germany and Ireland).[10]

1.29. After the recovery in 2010, the costly franc and the deterioration in the global situation weighed on Switzerland's foreign trade in 2011, particularly during the second half. Although *exports* still rose by 7.9% overall in real terms, in nominal value they increased by only 0.1%, showing the extent of the price concessions that had had to be made by the export industry. While demand from Asia flourished, that from Europe again dropped, with the exception of Ireland. *Imports* in nominal value remained largely at the 2010 level. Because the nominal value of exports rose more strongly than that of imports, Switzerland's *trade balance surplus* increased by 21%,

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[6] See http://www.snb.ch/fr/mmr/reference/pre_20110915_1/source.

[7] See http://www.seco.admin.ch/themen/02860/04718/index.html?lang=fr.

[8] It should be noted that a revision of the ordinance on foreign trade statistics came into force on 1 January 2012 (RS *632.14*). This revision follows the agreement between the Swiss Confederation and the European Community on cooperation in the area of statistics. Consequently, the European Union's regulations on foreign trade statistics have applied to Switzerland since 1 January 2012. Among the major changes are entries showing two countries for imports (country of shipment and country of origin) and the currency of the invoice, together with new requirements concerning quality. As a result, Switzerland's foreign trade data from 2012 onwards are not necessarily comparable with those for previous years.

[9] See http://www.news.admin.ch/NSBSubscriber/message/fr/31475.

[10] See http://www.news.admin.ch/NSBSubscriber/message/fr/37516.

reaching SwF 23.5 billion. In industry, the chemicals and pharmaceuticals industry is now the foremost contributor to the positive balance, with a figure of SwF 37 billion. On the other hand, the largest deficits come from vehicles (SwF -12 billion) and energy products (SwF -9 billion).[11]

1.30. In 2012, Switzerland's foreign trade held its own, bearing in mind the unfavourable global economic environment.[12] *Exports of goods* expanded by 1.5% in nominal terms, but fell slightly by 0.2% in real terms in 2012 in comparison with the previous year. The modest increase in exports came from three branches only, namely, clocks and watches, chemicals and pharmaceuticals, and foodstuffs, beverages and tobacco, and occurred outside Europe, notably in North and Latin America (+10%). Although exports by the watches and clocks and chemicals and pharmaceuticals industries increased very satisfactorily in both nominal terms (+11% and +5.8%, respectively) and real terms (+6.6% and +4.4%, respectively), deliveries overseas by the machinery and electronics industry, on the other hand, fell sharply in both volume and nominal terms (-12.5% and -9.6%, respectively). The Swiss economy was not immune from the downturn in the European economic situation or the slowdown in a number of Asian countries so the increase in *imports of goods* also remained modest in both volume (+0.6%) and nominal (+1.2%) terms in comparison with 2011. Switzerland's total *trade balance* in 2012 was SwF 24.4 billion, up by some SwF 860 million in comparison with 2011.

1.31. Because of the large decrease in the capital income balance (SwF -77.5 billion), almost exclusively caused by a sharp drop in the net income earned by direct investment banks as a result of the turmoil in financial markets between 2007 and 2008, the *Swiss current transactions balance* only yielded a surplus of SwF 11.8 billion in 2008 compared to SwF 72.9 billion in 2006, despite an increase from SwF 44.4 billion to SwF 65.3 billion in the goods and services balance surplus between 2006 and 2008.

1.32. *Exports of services*, which still played a decisive role in the rising surplus in the current account balance up until 2007, have barely increased overall since 2008, like the credit balance for *trade in goods*.[13] The sharp fall in *net capital income* was, however, almost totally reversed from 2009 onwards so that the current account balance once again rose strongly to SwF 82 billion in 2010.[14] As a *percentage of GDP,* the *current account balance* surplus, which had fallen from 14.4% in 2006 to only 2.1% in 2008, recovered to 14.3% in 2010.

1.33. In 2011, the current balance surplus once again fell sharply to SwF 49.2 billion, or 8.4% of GDP, mainly because of the lower surplus in capital income. This decline reached SwF 29.7 billion for a surplus of SwF 19.5 billion. One of the main results was the SwF 31.2 billion contraction in income earned from foreign direct investment. Overseas trade in goods and services ended with a surplus of SwF 60 billion, a SwF 2.3 billion decrease in comparison with 2010. The trade balance was positive at SwF 14.4 billion (+SwF 1.2 billion) as a result of a 2% growth in exports to SwF 197.9 billion, a major contributor being the clocks and watches industry. The services balance had a surplus of SwF 45.6 billion (-SwF 3.5 billion). Income contracted by 2%, mainly because of the 8% decrease, to SwF 15.1 billion, in income earned by banks for their financial services, a trend that has been repeated for the fourth consecutive year. Lastly, as regards tourism, Switzerland's earnings remained stable at SwF 15.6 billion at a time when the franc was strong. The monetary factor was felt to a greater degree, however, in the other direction, with the Swiss increasing their spending on holidays abroad by 6%, reaching a total of SwF 12.4 billion.

1.2.1.3 Foreign direct investment flows

1.34. Exports of capital for *Swiss foreign direct investment*[15] decreased from SwF 49.1 billion in 2008 to SwF 28.7 billion in 2009. In a difficult economic environment, industry in particular substantially restricted its purchases abroad and invested considerably less than in the previous year (SwF 10.5 billion compared to SwF 28.3 billion in 2008). Exports of capital by banks and insurance companies, the worst affected by the financial crisis in 2008, however, showed a marked increase. In 2010, exports of capital for Swiss foreign direct investment recovered strongly

[11] See http://www.news.admin.ch/NSBSubscriber/message/fr/43290.
[12] Provisional figures. See http://www.news.admin.ch/message/index.html?lang=fr&msg-id=47648.
[13] 2008: SwF 15 billion and 2009: SwF 16 billion.
[14] See http://www.snb.ch/en/iabout/stat/statpub/bop/stats/bop.
[15] See http://www.snb.ch/en/iabout/stat/statpub/fdi/stats/fdi.

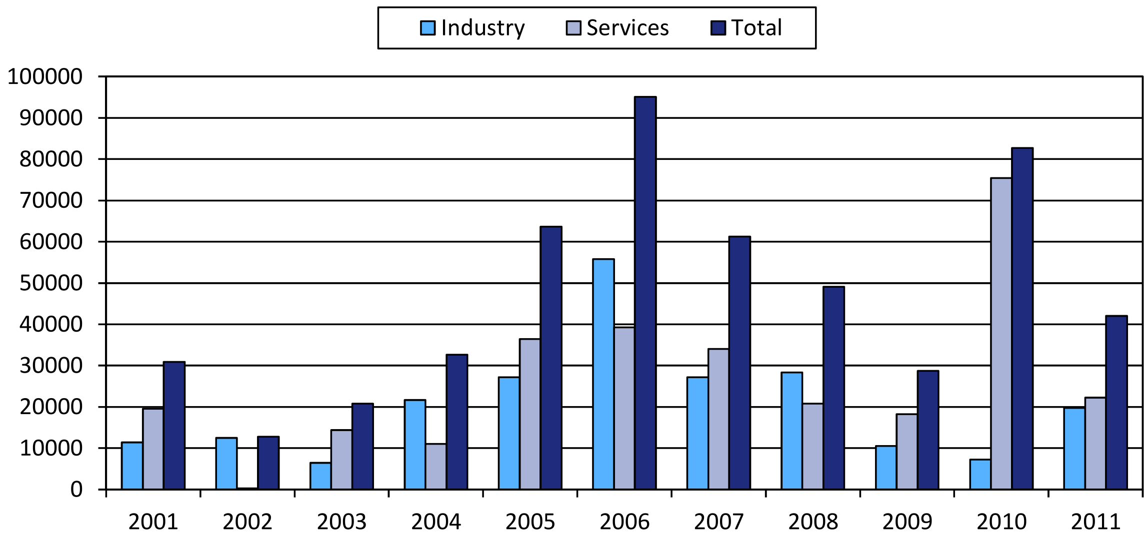
to reach SwF 82.7 billion. This increase was largely the result of transactions by foreign-owned financial and holding companies. The sharp fluctuations in capital flows in businesses within this group are not exceptional and often are not in any way related to the general trend in direct investment. Setting aside foreign-owned financial and holding companies, exports of capital for foreign direct investment amounted to SwF 41.3 billion, compared to SwF 27.6 billion in 2009. Insurance companies and banks played a key role in this increase, while industry invested less overseas than in the previous year. The capital exported was for the most part invested in subsidiaries that already existed abroad, while the acquisition of companies reached the low level of 2009.

1.35. In 2011, there was a marked drop in exports of capital for foreign direct investment, from SwF 82.7 billion in 2010 to SwF 42 billion. Foreign-owned financial and holding companies played a leading role in this decline. Foreign investment by commercial firms, insurance companies and banks likewise showed a year-to-year decline. Industry, on the other hand, notably the chemicals and plastics industries, has markedly increased its export of capital in this area. As in 2010, Swiss companies have for the most part invested overseas. For the first time, Asian countries have been the main beneficiaries of Swiss direct investment, with exports of capital reaching SwF 16.6 billion, compared to SwF 11.5 billion going to the United States, SwF 5.4 billion to the EU and SwF 4.9 billion to Latin America.

1.36. At the end of 2011[16], the *stock of Swiss direct investment in subsidiaries abroad* rose by SwF 29.9 billion to reach SwF 1,000.3 billion. This increase was mainly attributable to exports of capital, whereas exchange rate trends had a slightly negative impact on the value of stocks of direct investment in francs. Compared to other countries, Switzerland has a high level of foreign direct investment. At the end of 2011, according to a classification by the IMF[17], it ranked eighth in the world in terms of foreign direct investment. The United States, the United Kingdom, France, Germany, China, the Netherlands and Luxembourg occupy the top seven places, with the latter two countries also being the site of a number of holding companies. The high place occupied by Switzerland can be explained by a number of reasons, especially the presence in Switzerland of many headquarters of large multinational groups and its attraction as a site for foreign-owned holding companies. In terms of geographical regions, Swiss direct investment in 2011 could be broken down as follows: SwF 458 billion in Europe, including SwF 404.4 billion in the EU; SwF 229.3 billion in North America, including SwF 197.6 billion in the United States; SwF 182.7 billion in Central and South America; SwF 97.5 billion in Asia; SwF 22.4 billion in the Pacific region; and SwF 10.4 billion in Africa.

Flows of Swiss foreign direct investment

(SwF billion)



Source: Swiss National Bank.

[16] See http://www.snb.ch/en/iabout/stat/statpub/fdi/stats/fdi.
[17] See http://elibrary-data.imf.org/Report.aspx?Report=11666810.

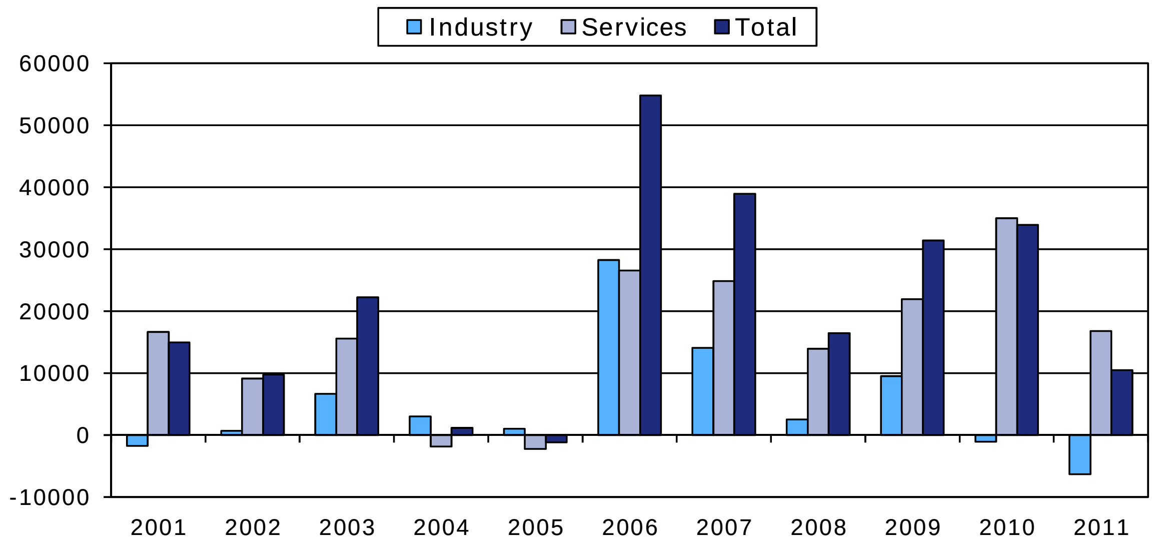
1.37. Foreign investors[18] substantially increased their *direct investment in Switzerland* in 2009 in comparison with the preceding year: they bought more companies, increased capital in existing subsidiaries and reinvested a larger percentage of the profits in subsidiaries. Overall, imports of capital rose from SwF 16.5 billion to SwF 31.4 billion between 2008 and 2009. In 2010, imports of capital for foreign direct investment in Switzerland continued to rise and reached SwF 33.9 billion. While investment in industry fell, this was more than offset by the transactions by financial and holding companies and investment in commercial firms.

1.38. In 2011, imports of capital for foreign direct investment in Switzerland amounted to SwF 10.5 billion as against SwF 33.9 billion the previous year. This setback can mainly be attributed to intra-group lending. In 2011, this line ended with the export of SwF 4.1 billion, whereas capital amounting to SwF 15.1 billion had been imported the previous year. Commercial firms, together with financial and holding companies and, to a lesser extent, companies in the chemicals and plastics sectors, received foreign direct investment, whereas the metalworking and machinery sector and insurance companies recorded disinvestment.

1.39. At the end of 2011[19], the *stock of foreign direct investment in Switzerland* rose by SwF 26.4 billion to reach SwF 606.8 billion, of which SwF 465 billion came from the EU and SwF 69.3 billion from the United States. The main reason for this increase is that one company that had been *Swiss owned* became *foreign owned*.[20] According to the breakdown of immediate investor by country, countries in the *Rest of Europe* (non-EU) and *Asia* groups were mostly responsible for the increase in the stock of direct investment; according to the breakdown of final investor by country, the increase could mainly be attributed to the *Rest of Europe* group of countries and the United States. The stock of direct investment from the EU, on the other hand, showed a marked decline, whichever breakdown is used.

Flows of foreign direct investment in Switzerland

(SwF billion)



Source: Swiss National Bank.

1.40. Between 2008 and 2011, the number employed in overseas subsidiaries of Swiss companies increased by 11.5%, reaching a total of 2.964 million in 2011. The number employed by foreign groups in Switzerland increased by 7.6% over the same period, with approximately 431,000 jobs.

[18] See http://www.snb.ch/en/iabout/stat/statpub/fdi/stats/fdi.
[19] See http://www.snb.ch/en/iabout/stat/statpub/fdi/stats/fdi.
[20] Synthes, bought by Johnson & Johnson for US$21.3 billion.

1.2.1.4 Macroeconomic policies

1.41. *Swiss economic policy* gives major priority to a macroeconomic policy environment designed to maintain stability. The Federal Constitution makes the BNS responsible for conducting a *monetary policy* that serves the country's general interests.[21] The new Federal Law on the Swiss National Bank (LBN, RS *951.11*), which came into force in May 2004, defines this responsibility and specifies that it is the task of the BNS to ensure price stability. In so doing, the BNS must take into account the evolving situation. The monetary policy strategy conducted by the BNS in order to fulfil its task consists of three components. Firstly, the BNS considers price stability to be equivalent to an annual increase of less than 2% in the Swiss consumer price index. Secondly, it publishes an inflation forecast based on a scenario that takes into account global economic trends and on the hypothesis that the Libor (three months, Swiss francs) at the time the forecast is published will remain unchanged for the following three years. Thirdly, at the operational level, the BNS gives the Libor a target range, which is usually one percentage point, and in general seeks to keep it in the middle of the chosen range. Furthermore, on 6 September 2011, the BNS determined a floor rate for the euro.

1.42. In 2008, monetary policy came under great strain because of the considerable uncertainty regarding trends in the economy and in financial markets. For the first ten months of 2008, inflation rose above the 2% threshold for the first time since 1995, driven by higher prices for oil and raw materials. The BNS nevertheless continued to pursue its monetary policy. It was obvious that the financial crisis would lead to a noticeable slowdown in Switzerland's growth. The BNS therefore left the range of 2.25%-3.25% for the three-month Libor unchanged until October 2008. It then brought it down in four stages to 0-1% between October and December. In conjunction with foreign central banks, it also took measures to calm money markets.

1.43. The beginning of 2009 was marked not only by a difficult situation and uncertainties in financial markets, but also by a high risk of deflation caused by the economic crisis and the surging Swiss franc and this led the BNS to decide in March to bring the range of the three-month Libor down to 0%-0.75% and to oppose any appreciation of the franc against the euro. It also bought up bonds in francs from Swiss debtors in the private sector in order to increase liquidity. This expansionist monetary policy continued until the end of the year. In December 2009, as the risk of deflation diminished as a result of the upturn in the economic situation, the BNS announced that it would henceforward only oppose any excessive revaluation of the franc against the euro.

1.44. In summer 2010, the world economy picked up somewhat, but uncertainties remained. Towards the middle of the year, the situation had become sufficiently stable at the national and international levels to remove to a large extent any risk of deflation in Switzerland. In June, the BNS therefore considered that appreciation of the franc no longer represented the same threat as previously for price stability and economic trends. It therefore decided not to intervene anew on the currency market in the second half of the year. It left the three month Libor range unchanged at 0-0.75%, but did not take any further measures to offset the appreciation of the franc against the euro. Even though price stability was ensured for the short term, long-term risks remained. This is why from summer 2010 onwards the BNS invited bids for repos and issued BNS stock in order to absorb liquidity and exert an influence over the three month Libor.

1.45. The deepening euro crisis in summer 2011 once again highlighted the extremely heavy upward pressure on the franc. In order to combat the strong franc, in August 2011 the BNS lowered the three-month Libor range, bringing it down to 0%-0.25%. Its aim was to bring the three-month Libor as close as possible to zero. At the same time, it increased liquidity in francs on the money market in three stages, and it rose from SwF 30 billion to SwF 200 billion. The upward pressure on the franc became even more acute at the beginning of September. On 6 September 2011, the BNS therefore announced that it would no longer accept a rate lower than SwF 1.20 to the euro on the exchange market. Through this measure, the BNS confronted the serious threat to the Swiss economy and the risk of deflationary trends linked to excessive overvaluation of the franc. It emphasized that it would resolutely impose this floor rate and was prepared to buy unlimited amounts of foreign currency for this purpose. This trend in monetary policy remained unchanged during 2012 and was reaffirmed by the BNS when it reviewed the economic and monetary situation on 13 December 2012. The BNS expects that, after a 0.7% decrease in 2012, inflation forecast for Switzerland will remain slightly negative

[21] See http://www.snb.ch/en/iabout/monpol.

in 2013 (-0.1%) and will only rise by 0.4% in 2014, so there is no risk of inflation in Switzerland in the foreseeable future.

1.46. Compared with the international situation, *government finances* are in a favourable situation in Switzerland. Between 2009 and 2011, the regular financial balance of government departments remained generally positive, despite the deteriorating economic situation. Communes, however, had deficits, whereas cantons posted a surplus. These discrepancies have no doubt continued throughout 2012. At the Federal level, surpluses have been posted since 2006, but they were lower between 2009 and 2011 in comparison with the record surplus in 2008. The financial account should post a surplus again for the 2012 financial year. Following the peak reached in 2005, the Confederation's gross debt decreased until 2009 and has since been stable. In view of the rising GDP in recent years, the *Confederation's debt ratio* (as a percentage of GDP) fell from 28.1% in 2005 to 19.6% at the end of 2011.[22] This performance can be explained not only by economic growth, but also underlines the new direction taken by the Confederation's financial policy. The *debt brake budgetary rule* has played a key role in this respect. This rule has been in effect since 2003 and requires that Federal finances be in balance throughout an economic cycle. It has allowed the rapid remedial measures necessary to prevent structural deficits (2003 and 2004 remedial programmes) to be taken, while at the same time authorizing measures in support of the economic environment when needed (stabilization measures in 2009-2010, measures against the strong franc in 2011). In addition, a new budgetary rule supplementing the debt brake was introduced in 2010 to prevent unexpected special expenditure from adding to the Federal debt. This rule provides that financial balance must be guaranteed in the medium term for the special budget as well.

1.47. At Federal level, *budgetary strategy* is based on the two fundamental objectives set in the 2011-2015 parliamentary session, namely, capacity to meet the debt brake requirements and limit the increase in spending so as to stabilize the share of expenditure. The *2013 budget*, adopted by Parliament in December 2012, includes a modest structural surplus (SwF 66 million, or 0.01% of GDP, for total expenditure of SwF 64.9 billion). The *financial plan for 2014-2016*, presented by the Federal Council in August 2012, is structurally balanced overall. Bearing in mind the additional expenditure agreed since then, however, and any new expenditures that may arise, as well as the uncertainties surrounding the economic environment, the Federal Council considers that some remedial measures are required. At the end of December 2012, it therefore put before Parliament a *programme for consolidation and review of responsibilities.* The remedial measures proposed amount to around SwF 700 million annually (or 0.1% of GDP) and should help to maintain the margin of manoeuvre needed to meet the debt brake requirements. The Federal Council is thus responding to a request by Parliament to review responsibilities and ease Federal finances.

1.2.2 Growth policy and future challenges

1.2.2.1 Brief evaluation of growth policy

1.48. Since the publication of the "2002 Report on Growth", Switzerland has continued to conduct an in-depth study of the *causes of its weak economic growth*. This led to the introduction of the "Measures by the Federal Council to promote growth" (or simply "Growth package") in 2004. This economic programme focuses on six main areas, namely: (1) competition on the domestic market; (2) economic integration; (3) optimizing the State's efforts; (4) maintaining a high rate of employment; (5) competitiveness in training; and (6) legal conditions that are attractive to business. In April 2008, the Federal Council approved the report on growth policy for 2008 to 2011, thereby fulfilling a mandate given to it by Parliament, advocating the continuation of the growth policy during the 2007-2011 parliamentary term.

1.49. The *growth policy for 2008-2011* is built around three main components. Firstly, a reduction in the high level of costs. Secondly, business needs to be given a more important role, and, thirdly, professional activities in Switzerland should be developed. The 2008-2011 growth policy should also induce an ongoing process because the Federal Council already realized at the time that the short-term revival would not last for ever. It was thus essential to boost trend economic growth over the long run in order to increase prosperity.

[22] For government authorities as a whole, the debt ratio fell to 35% in 2011.

1.50. Unlike the series of measures to promote growth that had been taken during the previous legislative term, the 2008-2011 growth policy is not confined to the measures within its sole competence that the Federal Council may submit to Parliament. International economic agreements and the economic policy of cantons offer such vast potential for growth that they have also been incorporated in the growth policy action plan.

1.51. It did not prove possible, however, to implement some measures defined in the 2008-2011 growth policy as the Federal Council would have wished. For example, in the full-scale review of postal legislation decided by Parliament, the traditional provider of postal services retains a partial monopoly. The reform of value added tax (VAT) did not lead to the introduction of a single rate or the administrative streamlining that should have ensued. There are also attempts to overturn at least in part some measures already decided (Cassis de Dijon Principle, free movement of persons). Nevertheless, it is the view of the Federal Council that all these reforms remain important for the revival of the Swiss economy.

1.52. The lack of a successful conclusion to various reform projects launched in connection with the 2008-2011 growth policy is, however, in marked contrast to the highly favourable place Switzerland continues to occupy in international competitiveness rankings, and with the feeling that Switzerland has confronted the recent financial and economic crisis better than many other industrialized countries. Nevertheless, this performance is more the result of appropriate budgetary and monetary policies than the expression of an underlying trend towards strong growth. If Switzerland appears both competitive and wealthy, this is above all attributable to strong participation by the labour force (82.5% in 2011) rather than a high level (US$48/hour in purchasing power parity in 2010) or growth in productivity (-0.5% annually between 2008 and 2011).

1.2.2.2 Internal challenges

1.53. This finding incited the Federal Council to pursue its efforts, paying particular attention to raising productivity, notably in domestic economic sectors. The aim of the *new growth policy for 2012-2015* is therefore to take all measures likely to raise the economy's productivity as a whole. It also seeks to ensure that – at the sectoral level – internal market-oriented sectors no longer base their future growth on extra labour to an exaggerated degree, as was the case in the recent past, but rather on increasing productivity.

1.54. In its growth policy, the Federal Council also endeavours to lower costs in Switzerland because these do not only have a direct effect on consumers and businesses, but also on price and wage levels, thereby exerting a negative impact on the competitiveness of the Swiss economy. In the area of health, rising costs have to be contained, not only to limit the increase in health insurance premiums but also to confront the opening of markets in the EU. The division of responsibilities among the Confederation, the cantons and communes makes effective cost management somewhat more complicated (for example, the legislation on construction and land planning). International acceptance of Switzerland's tax system is under threat to some extent and this must not hamper investment in Switzerland's economy. Switzerland is of course one of the most attractive places in which to set up a business, but competition among economic market places is becoming increasingly keener. The Confederation and the cantons (as well as cities and communes) which laud the merits of the Swiss market place abroad and play a key role in attracting business need to make even greater efforts.

1.55. The 2012-2015 growth policy includes a seventh and new field of action concerning the question of "the sustainability of resources derived from the environment". The energy intensity indicator linking energy consumption and GDP will illustrate this field of action, whose aim is to encourage growth that respects the environment. One of the major challenges in this sphere is to achieve climate objectives at reasonable cost by using resources efficiently. Other challenges include developing infrastructure and linking Switzerland to international transport networks. Lastly, demographic change means that in Switzerland today the number of people retiring is larger than the number of young skilled people entering the labour market. In years to come, the population of working age will therefore grow more slowly in Switzerland.

1.56. The 2012-2015 growth policy must help to raise productivity, in practical terms through: (1) reform of the health sector; (2) reform of the agricultural policy for 2017 onwards;

(3) the change in the direction of energy policy (gradual elimination of nuclear energy), using the means chosen, must not become an excessive burden on businesses; (4) the determination of budgetary priorities for eight years, periodically revised; (5) the establishment of clear budgetary rules for managing social insurance so as to prevent political blockages from affecting its financing and jeopardizing the benefits offered; and (6) keener competition in the Swiss economic market by using information and communication technologies. Above all, it is a question of moving ahead in the direction of "electronic government" (e-government) and streamlining administrative procedures.[23]

1.2.2.3 External challenges

1.57. Switzerland is also facing a number of *external challenges* that it will have to overcome. With the growing number of cross-border value creation and supply chains, more and more businesses are involved in the international division of labour within the global production and supply process. At a time when markets for goods, services and capital are increasingly integrated, each State continues to regulate its own national economy. The external shocks which countries cannot overcome alone constitute an enormous challenge. In this connection, the very sharp appreciation of the franc since 2010 underlines the vulnerability of the Swiss economy. Furthermore, the 2008-2009 financial and economic crisis reinforced the trend towards trade and financial protectionism worldwide. The increasing scarcity of natural resources as a result of the world's growing population and changes in consumption patterns will make the question of resources even more important in the future. This issue of resources is exacerbated by climate change, over-exploitation of ecosystems and non-renewable resources, the limited reserves of fossil fuels and awareness that the cost of nuclear energy is not what it was made out to be. Switzerland, which has few raw materials, is therefore particularly affected in this respect.

1.3 Main focus of recent and current structural reforms and other priorities of Switzerland's economic policy

1.58. A number of *structural reforms* have been introduced in recent years, at both the internal and the external levels, to complement and reinforce the growth policy. The combination of broader openness to the outside, the introduction of free movement of persons within the EU and EFTA and the reforms of the domestic market have helped to boost competition at the domestic level, while at the same time making exports more competitive. As a result of the combined positive impact of these various policies, Switzerland has been able, on the one hand, to limit the negative impact of the 2008-2009 financial and economic crisis on its economy and, on the other, to effect a rapid return to growth, even though some considerable risks remain in relation to the persistence of growth because of the enduring debt crisis, notably in the eurozone, and the strong franc. Switzerland is determined to continue these reforms both internally and in foreign economic policy in order to maintain a sound economic and financial situation despite the serious economic problems facing many of its economic and trading partners.

1.3.1 Domestic policy areas

1.59. Some noteworthy aspects of the reforms introduced since the previous Review of Switzerland's trade policy are described below. There has been a new revision of the Law on cartels and other impediments to competition, a revised law on banks (reinforcing the stability of the financial sector, "too big to fail"), the 2011 Agricultural Policy and the 2014-2017 Agricultural Policy, the revision of the law on energy, the revision of the law on supplies of electricity, the revision of the law on CO_2, the internal implementation of the revised Agreement on Government Procurement, the total revision of the law on alcohol and, lastly, the new developments in relation to intellectual property.

1.3.1.1 Revision of the Law on cartels and other impediments to competition

1.60. The Federal Council approved and forwarded to Parliament the message on a *new revision of the Law on cartels and other impediments to competition (LCart)*, of 22 February 2012. The Council of States' competent commission decided to take up the issue on 26 June 2012 and is currently continuing to discuss it in detail. This new revision of LCart has a twofold objective: on

[23] See SECO, *Politique de croissance 2012-2015*, Report of the Federal Council, Bern, 2012, 69 pages.

the one hand, to increase competition in Switzerland in keeping with the country's liberal economic regime and, on the other, to provide greater legal certainty. At the institutional level, it is planned to transform the current secretariat of the Competition Commission (COMCO) into a Competition Authority, and the Competition Commission itself into a judicial body in the form of a new chamber belonging to the Federal Administrative Tribunal. The plan also takes into account developments in European legislation, thereby creating a competition framework that responds to the needs of a modern economy.

1.61. With this in mind, it is planned notably to prohibit any particularly prejudicial forms of cartel-type understandings, although an exception may be made on the grounds of economic efficiency. In the context of a strong franc, on 17 August 2011 the Federal Council decided to boost competition in Switzerland by taking legal steps to prohibit horizontal agreements on prices, quantities or geographical allocation of markets, as well as vertical agreements on minimum or fixed prices and unequivocal territorial partition, while authorizing opportunities to justify these. This measure aims in particular to tackle Switzerland's high prices, enhance the Swiss economy's international competitiveness in the long term and provide a response to legal problems that arose in relation to the regulations in effect (Article 5, LCart).

1.62. The basic difference in comparison with the current legislation is the fact that the unlawful nature of particularly prejudicial horizontal or vertical agreements will no longer result from their direct economic effects on a case-by-case basis, i.e. by seriously hindering competition, but will depend on the type of agreement. Bans and penalties will depend on the competition parameters eliminated by the agreement in question (price competition, import competition, etc.). The five types of agreement that are already punishable will be deemed intrinsically unlawful under the Law. It will no longer be necessary to prove that they seriously hinder competition. The economic impact will, however, play a role in the level of the penalty. On the other hand, such agreements may still be lawful if they are justified on grounds of economic efficiency.

1.63. In addition, it should be possible to prohibit concentrations of businesses or make them subject to reservations or conditions if they seriously hinder competition. In return, greater attention will have to be paid to efficiency gains resulting from a concentration when evaluating a project from the point of view of the legislation on cartels. The current legislation is based on a dominant-position test.

1.3.1.2 Revision of the law on banks (Reinforcing the stability of the financial sector, "too big to fail")

1.64. The recent world financial and economic crisis has shown that in Switzerland as well the failure of a large bank constituted a major risk to the economy. The Federal Council wants to prevent any bank from being "too big to fail" and compelling the State use public money to save it. A series of measures has been adopted to bolster the resistance of systemically important banks to the crisis and to reinforce the stability of the financial sector as a whole. The *total revision of the ordinance on own funds* allows the international rules prescribed by the Basel Committee on Banking Supervision (Basel III) to be transposed into Swiss law. According to the revised ordinance, which came into force on 1 January 2013, banks must have higher quality own funds and also have additional means available in the form of a capital buffer. In Switzerland, systemically important banks will have to comply with additional requirements. By 2018, they will have to increase their own funds to 19%, meet more stringent liquidity requirements and improve the risk spread. They will also have to arrange for responsibilities that are important for the economic system to continue to be assumed if there is a risk of insolvency. *The relevant amendments to the law on banks* have been in force since 1 March 2012.

1.3.1.3 Agricultural Policy 2011 and Agricultural Policy 2014-2017

1.65. *Switzerland's agricultural policy* is based on Article 104 of the Federal Constitution, which calls for agricultural production that takes into account simultaneously the requirements of sustainable development and market economy principles. Farmers are not only seen as producers of food, but also as contributing to the population's food security, the conservation of natural resources, the upkeep of the rural landscape and decentralized occupancy of the land. This multifunctional concept is included in the Constitution and is the basis for the direct payments to farmers for the services they provide in the public interest.

1.66. The main feature of the *2011 Agricultural Policy (PA 2011)*, the fourth stage in the reform of Swiss agricultural policy launched in 1992, is the reallocation of market support to decoupled direct payments; there has been a 30% reduction in market support. In addition, the key measures taken have been the elimination of export subsidies for agricultural commodities and reduced customs duties on cereals, animal feed, oilseeds and cut flowers. At the conclusion of PA 2011, there has been noticeable progress in relation to ecology and efforts to protect and promote biodiversity have been intensified.

1.67. With the *2014-2017 Agricultural Policy (PA 14/17)*, the fifth stage in the reform, the Federal Council is proposing a long-term strategy aimed at promoting more innovation in agriculture and the food chain, further enhancing competitiveness and better targeted support for services in the public interest. The key component of PA 14/17 is the development of a system of direct payments. In future, payments will systematically be directed towards services in the public interest desired by the population and laid down in the Federal Constitution, by means of payments for open rural landscapes, security of supplies, biodiversity, the quality of the landscape, the production system and efficient use of resources.

1.68. The future concerns of Switzerland's agricultural policy include the globalization of markets and closer European relations. Switzerland has chosen to be proactive in face of these challenges. Negotiations between Switzerland and the EU on a free trade agreement in the agrifood sector have been under way since November 2008. The aim is to open up markets covering the whole of the food production chain. For the time being, discussions are at a standstill, mainly because of outstanding institutional issues between Switzerland and the EU. At the same time, Switzerland has continued to harmonize its legislation with that of the EU, which forms the basis for updating and developing the current agricultural agreement between Switzerland the EU. The EU is by far the largest trading partner for Switzerland's agrifood sector. Increased interaction between the Swiss and EU agricultural markets therefore makes a substantial contribution to reform of Swiss agricultural and food policy.

1.3.1.4 Revision of the law on energy

1.69. On 1 July 2012, the Federal Council enacted the *amendment to the law on energy* (Article 8) adopted by the Federal Assembly on 23 December 2011. By means of this amendment, the Federal Assembly decided to modify the order of priority of possible measures. The Federal Council now has the possibility of directly issuing orders on energy consumption by facilities, equipment and vehicles, without having to wait for the measures taken freely by the economy to take effect, as had previously occurred in most cases. In doing so, it will be guided by profitability and the best available technology (best equipment) and will take into account international standards and recommendations by recognized specialized institutions. The Federal Council may also in due time adapt Swiss requirements to new international consumption standards, notably those of the EU. If it finds it appropriate, the Federal Council may nevertheless continue to rely in the first place on voluntary agreements with economic sectors.

1.3.1.5 Revision of the law on electricity supply

1.70. The *law on electricity supply (LApEl)*, adopted by Parliament in 2007, envisages the opening up of the market in two stages: during the first five years (2009-2013), only end consumers with consumption exceeding 100,000 kWh have free access to the market. After five years, households and small-scale consumers will also be able freely to choose their electricity supplier. Full market liberalization will be introduced by Federal decree, which may be the subject of an optional referendum. The extra-high voltage network is operated by a Swiss grid operating firm (swissgrid) that will remain directly or indirectly under Swiss control (cantons, communes and electricity suppliers). Looking at the experience gained since 2009, it appears that the objectives sought in opening up the market have not yet been achieved, namely, the introduction of a competitive and secure electricity supply at transparent prices. In early 2010, the Federal Office of Energy, together with various internal and external groups, undertook an analysis of the legal bases with a view to revising the LApEl. In March 2011, this analysis was deferred in view of the urgent need to develop a new energy strategy for 2050 following the tragic events in Japan. Work on revising the LApEl resumed in 2012, in tandem with the establishment of the 2050 energy strategy.

1.3.1.6 Revision of the law on CO_2

1.71. The *law on CO_2* has been revised for the post-2012 period.[24] In December 2011, Parliament decided to reduce Switzerland's greenhouse gas emissions by at least 20% in comparison with their 1990 levels by 2020. As the revised CO_2 law focuses on reductions made in Switzerland, the potential for domestic reduction is exploited and incentives are given for increased use of renewable energy with low emission rates, encouraging technological innovation and fostering job creation in sectors of the future. Domestic measures to enhance efficiency also have the advantage of lessening Switzerland's dependence on imports of energy and help to reduce the harmful effects of atmospheric pollution on health. The revised CO_2 law came into effect on 1 January 2013.

1.72. The new legal bases represent a continuation of the current CO_2 law. In addition to measures taken in the context of other sectoral policies (for example, SuisseEnergie[25], the proportional heavy vehicle tax [RPLP][26]), measures and tools that have proved their worth have been renewed and improved and new measures introduced:

- CO_2 tax (incentive) levied on fuel;
- partial allocation of the CO_2 tax to financing measures in the construction sector;
- exemption from the CO_2 tax and system for trading emission quotas for companies producing large volumes of emissions;
- requirement that importers of fossil fuels offset part of the emissions caused by their products;
- requirement that operators of thermal power stations using fossil fuels offset the stations' emissions; and lastly
- flexibility mechanisms in the Kyoto Protocol (limited recognition for emission reductions in projects carried out abroad).

1.3.1.7 Implementation of the revised Agreement on Government Procurement at the internal level

1.73. On 18 November 2009, the Federal Council approved the *amendment to the ordinance on government procurement (OMP)*. The purpose of this decision was to modernize, streamline and clarify Federal legislation on government procurement and make it more flexible. The functioning of procedures was improved in order to save time, lower costs and generate a positive impact on the economic situation. This decision was taken after the Federal Council had decided on 17 June 2009 to renounce the partial unification of government procurement law at the national level owing to lack of consensus. The amendment to the OMP came into effect on 1 January 2010. Since then, calls for bids by Federal bodies have had to be published on the electronic platform *simap.ch*, operated jointly by the Confederation and the cantons.

1.74. With this change to the OMP, the Federal Council enshrined the principle that bidders must, as a minimum, observe the eight core conventions of the International Labour Organization (ILO). This principle applies indiscriminately to foreign and Swiss bidders. Pursuant to the Declaration by the ILO on fundamental principles and rights at work, adopted on 18 June 1998 by the 86th Session of the ILO General Conference held in Geneva, each member State has an obligation, inherent in ILO membership, to respect, promote and implement the principles that are the subject of these conventions. There are now 185 member States of the ILO. A contracting agency may reject the award of a contract or exclude a bidder if it does not observe the ILO's core conventions.

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[24] http://www.admin.ch/ch/f/ff/2012/109.pdf.
[25] http://www.suisseenergie.ch/fr-ch/utilities/a-propos-de-suisseenergie.aspx.
[26] http://www.ezv.admin.ch/zollinfo_firmen/steuern_abgaben/00379/index.html?lang=en.

1.75. Since 2008, Switzerland has also reinforced its anti-corruption system. Suspect cases may be brought to the attention of the Swiss Federal Audit Office (CDF) anonymously ("whistleblower hotline") and it then undertakes supplementary enquiries. Preventing corruption is an integral part of courses on government procurement law. The Confederation's employees subscribe to the Federal Administration's Code of Conduct and are given information leaflets. In 2009, the Federal Council established an interdepartmental working group to combat corruption, ensure coordination and exchange of information and experience in the Federal Administration. As the central procurement service for the Federal Administration, the Federal Office for Buildings and Logistics (FOBL) has taken additional measures to prevent corruption in relation to procurement. It regulates and limits competence for awarding contracts and applies the principle of dual control. Internal directives spell out the general requirements governing the acceptance of benefits. An integrity clause is an integral part of contracts and provides for the usual types of penalty but also for the cancellation of a contract if there is any attempt at corruption.

1.76. On 24 October 2012, the Federal Council approved the *total revision of the ordinance on the organization of the Confederation's procurement (Org-OMP*). The revised ordinance came into force on 1 January 2013. The total revision of the Org-OMP determines, in particular, the bases applicable to the introduction of a procurement control system ("procurement controlling") for the Federal Administration as a whole. This system has three computerized components, a tool for managing contracts, statistics on procurement and follow-up of sustainability. These three tools will make it possible to furnish more precise data on the Confederation's procurement in the future and to undertake regular analyses. The aim is to know who has awarded what contract, to which bidder and following what procedure, what are the contracts and what payments have been made, and to what extent sustainable development aspects have been taken into account.

1.77. On 23 March 2012, the Federal Council approved the revision of the WTO Agreement on Government Procurement. The deposit of Switzerland's instruments of ratification with the Director-General of the WTO will require prior amendment of Federal and cantonal legislation on procurement and will have to be approved by Parliament. The Federal and cantonal authorities have developed a mechanism for adapting the current legislation to the new provisions in the revised Agreement on Government Procurement. The opportunity will be taken to harmonize Federal and cantonal legislation as much as possible. This work will take place according to a timetable that is also imposed by parliamentary procedure and should enable Switzerland to ratify the revised Agreement in the course of 2015.

1.3.1.8 Total revision of the law on alcohol

1.78. The law on alcohol currently in force dates back to 1932 and is one of the oldest Federal laws. There have of course been many partial revisions throughout its 80 years of existence, but these have not prevented it from only responding in part to current requirements. This why the Federal Council included *revision of the law on alcohol* among its objectives for the 2007-2011 parliamentary session. Through this total revision, the Federal Council is pursuing the following objectives. Firstly, *liberalization of the market*: three of the Confederation's monopolies and 41 out of 43 authorizations will be eliminated. Moreover, it is planned that the Confederation should withdraw totally from the market for ethanol. Secondly, *improvement of the taxation and control system*: the taxation system will be streamlined by making taxation directly related to production and import of spirits. The number of taxpayers, which is currently around 48,000, will fall to some 3,000. In addition, tax privileges will be harmonized. These streamlining measures will mean a sharp reduction in controls by the administration, without affecting tax revenue. Thirdly, *reorganization of the regulations on the market*: by combining in a single law the provisions on trade in alcoholic beverages and their advertising, currently spread over several different texts, it will be possible to avoid duplication in the legislation and in its implementation and the ensuing legal uncertainty will be removed. Furthermore, it will create the conditions for greater consistency in the policy on alcohol (and in the market for alcohol) by making trade in alcoholic beverages subject to uniform rules. Lastly, *redistribution of responsibilities*: the elimination of the Confederation's import monopoly and its withdrawal from the ethanol market will enable Alcosuisse, the profit arm of the Federal Alcohol Board (FAB), to be privatized. The Board's other services will be incorporated into the central Federal Administration. This will make it possible to concentrate on the potential for synergy with other administrative responsibilities.

1.79. On 25 January 2012, the Federal Council approved the message on the total revision of the law on alcohol. It forwarded two draft laws to both Chambers of Parliament, namely, the law on taxation of spirits and the law on trade in alcohol. Liberalization of the markets for ethanol and spirits is accompanied by stronger protection for young people and the introduction of a "night regime" applicable to the sale of alcohol. The present FAB will be incorporated into the Federal Customs Administration (FCA), where it will be responsible for implementing the two new laws. The matter is before Parliament. The drafts will first be examined by the Council of States, which has priority. Discussions will take place in several stages. The Council of States' Committee for Economic Affairs and Taxation (CEAT-CS) will prepare the text for the Council. In so doing, it will take into account the advice of the Committee for Social Security and Health (CSSH-CS). The Council of States will then take a decision on the drafts in plenary session. Lastly, the draft will be examined by the relevant committees of the National Council. After the second Council has discussed the text, any differences between the National Council and the Council of States will be eliminated. The parliamentary stage will end by a final vote in the two Chambers. The timetable for the various stages will be fixed by Parliament. Once adopted, the laws will be subject to an optional referendum.

1.3.1.9 Intellectual property

1.80. Because of its few raw material resources and the size of its domestic market, innovation plays a catalytic role in Switzerland's export-oriented economy. Switzerland therefore attaches paramount importance to protection of intellectual property and guarantees protection over and above the minimum standards in the TRIPS Agreement. Because of this keen interest, it takes an active and constructive part in the discussions under way in various international forums, especially within the WTO and the World Intellectual Property Organization (WIPO).

1.81. The partial revision of the *patent law* mainly concerned biotechnology inventions and ratification of the WIPO Patent Law Treaty (PLT), but also included other revisions of legislation on the principal intellectual property rights (copyright, trademarks, geographical indications and designs), introducing in particular additional provisions[27] on combating counterfeiting and piracy. This partial revision came into effect on 1 July 2008.

1.82. The latest revision[28] of the *copyright law* (LDA RS *231.1)*[29] introduced the standard of protection prescribed in WIPO's internet treaties[30] in order to adapt legislation to technological progress. Switzerland is also one of the signatories to the Beijing Treaty on Audiovisual Performances adopted in June 2012 at the Diplomatic Conference held in Beijing.

1.83. As far as patents are concerned, a new provision has been introduced into the *Federal Law on patents* (LBI, RS *232.14*). This came into force on 1 July 2009 and, with some exceptions, it allows patented goods placed on the market within Switzerland or the European Economic Area by the owner of a patent or with his/her agreement to be imported, used or resold in Switzerland at a professional level. The legislation on patents has also been supplemented by the introduction of two new laws. The law on patent attorneys (LCBr, RS *935.62)*[31] came into force on 1 July 2011 and regulates the conditions for using the title of "patent attorney", reserving it for persons enrolled in the Register, with specific professional qualifications and having passed an examination, in accordance with the provisions laid down in the law. The law on the Federal Patent Court (LTFB, RS *173.41*)[32] was fully implemented on 1 January 2012; it establishes a special national court with exclusive competence, *inter alia*, for ruling on the validity or infringement of a patent. The Court is composed of judges with legal training and judges with technical training, thus providing the necessary expert knowledge to guarantee effective legal protection for patents. The Court commenced work on 1 January 2012.

[27] These provisions, *inter alia,* give the Federal Customs Administration the means for effective intervention (for example, the authority to act ex officio), provide heavier penalties for violation on a commercial scale (for example, larger fines) or the possibility for the owner of a trademark or design to prohibit the import, export or transit of counterfeit goods, even if this is done by individuals. For further details, see WT/TPR/G/208.

[28] Entered into force on 1 July 2008.

[29] See http://www.admin.ch/ch/e/rs/231_1.

[30] Treaty of 20 December 1996 on copyright (WCT) and Treaty of 20 December 1996 on performances and phonograms (WPPT).

[31] See http://www.admin.ch/ch/e/rs/c935_62.html.

[32] See http://www.admin.ch/ch/e/rs/c173_41.html.

1.84. The substance of the *law on the protection of trademarks and indications of source* (LPM, RS *232.11*)[33] was not revised during the period under review. In view of the importance it attaches to the protection of geographical indications, Switzerland has made an active and constructive contribution to the relevant discussions within the WTO. Switzerland is in favour of a high level of protection irrespective of the type of product designated by a geographical indication and it supported the communication of 19 April 2011 (TN/C/W/60) submitted by a number of WTO Members proposing the appropriate amendment of Section 3, Part II, of the TRIPS Agreement in the context of the Doha Round negotiations. At the national level, work on legislation is under way in order to define the conditions under which use of the name "Switzerland" and of the Swiss flag on products will be allowed ("Swissness" project).

1.85. Regarding the *enforcement of intellectual property rights*, Swiss legislation covering the main intellectual property rights (copyright, trademarks, geographical indications and designs) was supplemented in the course of the latest partial revision of the patent law, which came into force in July 2008. Effective measures to combat the growing trade in counterfeit or pirated goods are provided (notably border measures), together with harmonized and dissuasive penalties. Any infringement of intellectual property rights on a commercial scale may now be punished by a maximum term of imprisonment of five years and a fine of up to SwF 1,080,000. In addition, the Swiss authorities (in particular the Federal Intellectual Property Institute (IPI)) and economic circles have a platform called STOP PIRACY[34] whose aim is to provide information on the risks and negative consequences of counterfeiting and piracy and to reinforce coordination in this respect between the public and private sectors.

1.3.2 Foreign policy areas

1.86. Switzerland's concern that policies on reform, liberalization and openness should be mutually reinforcing can also be seen in the various *foreign policy measures* taken by the Government during the period under review.

1.3.2.1 Relations between Switzerland and the EU

1.87. As far as *European integration* is concerned, Switzerland has close relations with the EU. Contractually, this has meant the following: in 1972, the two parties signed a free trade agreement (for industrial goods). In 1999, *seven bilateral agreements* were signed on the free movement of persons, land transport, air transport, agriculture, research, technical barriers to trade and government procurement. These agreements have been in force since 1 June 2002, enabling Switzerland not only to open up its economy still further and improve its access to the EU market, thus complementing the 1972 free trade agreement, but also to strengthen the euro-compatibility of the technical regulations in Switzerland's economic legislation. The experience of implementing these agreements since their entry into force has been promising.

1.88. In the course of 2004, Switzerland signed *nine additional agreements* with the EU in order to strengthen its regional links with its main economic partner. These new agreements cover cooperation in the areas of justice, asylum and migration (Schengen/Dublin), taxation of savings, action to combat fraud, processed agricultural products, the environment, statistics, promotion of films, pensions, education, vocational training and youth. They mark the continuation of the bilateral approach adopted by Switzerland after the rejection of membership of the European Economic Area (EEA) in 1992. With the exception of the agreement on combating fraud, which is a mixed agreement and hence must be approved by all EU States (to date, one of the 27 EU members has not yet ratified the agreement), the agreements have entered into force.[35] Since 2009, Switzerland and the EU have signed further agreements on customs facilitation and security, education, recognition of PDOs and PGIs and on cooperation with the European Defence Agency.

1.89. The Swiss Federal Council gives priority in its European policy to the *consolidation and development of the bilateral route* by signing new agreements on market access and cooperation in areas of common interest.

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[33] See http://www.admin.ch/ch/e/rs/c232_11.html.
[34] See http://www.stop-piracy.ch/en/home/h1.shtm.
[35] See http://www.europa.admin.ch/themen/00500/index.html?lang=en.

1.3.2.2 Free trade agreements

1.90. In the context of Switzerland's foreign economic policy, the *free trade agreements* with its non-EU trading partners, together with its membership of the WTO and the bilateral agreements with the EU, constitute an indispensable contribution to maintaining and enhancing the competitiveness and the attraction of Switzerland as an economic centre.[36] By signing free trade agreements, mostly within the EFTA framework, Switzerland aims to give its firms access to foreign markets that places them on an equal footing with their main competitors. In addition, these agreements generally provide more legal certainty, as well as stability of the framework conditions governing economic relations with the partner States concerned, while at the same time helping to diversify and galvanize Switzerland's external economic relations. The *preferential policy* followed by Switzerland and the EFTA countries is not, however, intended to replace trade liberalization at the global level. It remains a *complement* to Switzerland's commitment to the WTO process.

1.91. Since the previous Review of its trade policy in 2008, Switzerland has continued to expand its network of free trade agreements. Accordingly, since the beginning of 2009, it has signed a bilateral agreement with Japan and, within the EFTA framework, agreements with Canada (2009); Albania and Serbia (2010); Colombia and Peru (2011); Ukraine; Hong Kong, China; and Montenegro (2012), bringing the number of free trade agreements within the EFTA framework up to 24.[37] The majority of the free trade agreements signed with partners outside the Euro-Mediterranean area are extended sectoral agreements. In addition to movement of goods, competition law and intellectual property, they generally also include substantial commitments on services, investment and government procurement. In addition, since mid-2010, Switzerland and EFTA countries have proposed to all their negotiating partners the inclusion of special provisions on trade and sustainable development.

1.92. As there is an ongoing trend towards the proliferation of preferential agreements at the international level and in view of the Swiss economy's interests, Switzerland intends to pursue its policy aimed at concluding free trade agreements with non-EU partners. Switzerland is therefore currently engaged in negotiations with the following within the EFTA framework: Algeria, Bosnia & Herzegovina, four Central American States (Costa Rica; Guatemala; Honduras and Panama), India; Indonesia; the Russia-Belarus-Kazakhstan Customs Union; Thailand; and Viet Nam. Negotiations with Malaysia will commence shortly. At the bilateral level, in January 2011, Switzerland and China started negotiations on a free trade agreement between the two countries. Lastly, Switzerland and the other EFTA countries are exploring the possibility of initiating negotiations with other trading partners.

1.3.2.3 Cooperation with developing countries and countries with economies in transition

1.93. Switzerland, as the host country of international organizations such as the WTO, the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD) and the ILO, is destined to play a key role in promoting trade. As already indicated, economic development cooperation is one of the three pillars of the Federal Council's *foreign economic strategy,* namely *integration of developing countries into the global trading system*. This is why from the outset of the Doha negotiations, the SECO has significantly developed its trade promotion cooperation programmes and adapted them to its partners' needs.

1.94. Switzerland recognizes the importance of consistency between its trade and development policies, and this influences both its position in negotiations on trade agreements and its trade-related cooperation programme. To achieve this, Switzerland has strengthened and better targeted its trade-related cooperation, broadening it to include sanitary and phytosanitary measures and other emerging issues such as competition, the award of contracts or technical requirements and standards. The principle of sustainability, focusing on the *environmental* and

[36] See http://www.seco.admin.ch/themen/00513/00515/01330/index.html?lang=en.

[37] The full list of EFTA's free trade partners was as follows (status at the end of January 2013): Albania; Canada; Chile; Colombia; Cooperation Council for the Arab States of the Gulf (GCC); Croatia; Egypt; former Yugoslav Republic of Macedonia; Hong Kong, China; Israel; Jordan; Lebanon; Mexico; Montenegro; Morocco; Palestine; Peru; Republic of Korea; Serbia; Singapore; Southern African Customs Union (SACU); Tunisia; Turkey and Ukraine.

social dimension of economic issues is a cross-cutting objective at the heart of all these programmes. In addition, global issues such as *climate change* are becoming increasingly important because trade has the potential to address these challenges effectively.

1.95. Switzerland's *trade-related cooperation* is based on the following three thrusts: trade policy, trade efficiency (including the application of international standards) and market access. These three thrusts are addressed below, together with the cross-cutting objective of Swiss trade-related cooperation: the sustainability of exports.

1.3.2.3.1 Trade policy-related cooperation

1.96. The growing complexity of world trade raises major challenges for the developing countries, in particular for the least developed among them, which find themselves obliged to *build up their institutional* capacity in order to make sure that their voice is heard during multilateral and bilateral trade negotiations and when *implementing the outcome of these negotiations*. This is why Switzerland supports multilateral initiatives for LDCs, for example, the *Enhanced Integrated Framework*, *Aid for Trade* or the *Inter-Agency Cluster on Trade and Productive Capacity of the Chief Executive Board* (*UN Trade Cluster*). The purpose of these initiatives is to integrate trade into national poverty reduction strategies as a tool for development and to ensure better coordination of trade-related technical assistance provided by the industrialized countries and multilateral agencies.

1.97. At the same time, Switzerland provides assistance in understanding and *implementing the WTO Agreements*. In acceding to the WTO, many developing countries have underlined the need to build up their trade policy-related capacity. In order to achieve this objective, Switzerland's trade promotion involves a series of activities aimed at creating and supporting specialized services for the authorities in partner countries (for example, Laos, Viet Nam, Lebanon, Tajikistan, Montenegro, Serbia and Liberia). Switzerland supports programmes that target both the partner countries and "the international role of Geneva", working closely with organizations that specialize in WTO law, for example, the Advisory Centre for WTO Law (ACWL). In order to foster better understanding of the WTO's rules and procedures, Switzerland supports the work of the WTO's Institute for Training and Technical Cooperation through the Doha Development Agenda Global Trust Fund and also works with the ITC, especially its WTO Division.

1.98. Switzerland is working in partnership with specialized national and international organizations such as UNCTAD (competition policy) and the IPI (rights under the TRIPS Agreement) or the Federal Customs Administration (trade facilitation). Together with partner countries, it identifies needs in order to develop cooperation programmes adapted to each level, thereby helping to build the capacity of public and private sectors, notably by setting up an appropriate legal and institutional framework.

1.3.2.3.2 Trade efficiency / international standards

1.99. One essential concomitant of demands by developing countries for market access is improving *trade efficiency and the production capacity of their enterprises*. Together with the ITC, Switzerland is supporting the development of a comprehensive range of services intended for small and medium-sized enterprises (SMEs) in developing countries. The purpose of these services, which are provided by local suppliers (export promotion entities or chambers of commerce), is to increase the export capacity and competitiveness of SMEs and to integrate them more closely into international value-creation chains for both goods and services (for example, textiles and tourism). They include, *inter alia*, trade information, training in trade-related matters, development of products and markets, management of the logistics chain and of production.

1.100. One other area of intervention aimed at enhancing the export capacity and integration of SMEs in international value chains concerns *programmes which help SMEs to comply with international market standards*. In cooperation with the United Nations Industrial Development Organization (UNIDO), Switzerland gives local authorities in partner countries support to improve quality systems, particularly as regards the examination of standards and quality criteria. Better metrology and the introduction of modern testing procedures will allow partner countries to determine themselves - using internationally recognized methods - whether their exports of agricultural products and intermediate products comply with international standards for consumer safety.

1.3.2.3.3 Market access

1.101. In order to facilitate *access to its market for products from developing countries*, under its Generalized System of Preferences (GSP), Switzerland gives them extensive reductions in customs duty on agricultural and textile goods and exemption for all other goods. These tariff preferences are of particular benefit to LDCs, which can export all their goods to Switzerland free of duty and without quotas. Another instrument, the Swiss Import Promotion Programme (SIPPO) is intended for export-oriented SMEs in developing countries or countries with economies in transition. It facilitates direct links between exporters in developing countries and European importers, including those in Switzerland; it also assists SMEs and national export promotion institutions to sustainably enhance the competitiveness of SMEs and to gain a foothold in international markets.

1.3.2.3.4 Sustainability of exports

1.102. One *cross-cutting objective* of particular importance in Switzerland's trade-related cooperation is the *sustainability of exports.* Switzerland pursues this objective by endeavouring to promote the efficient use of resources in production, to encourage the transfer of environmentally friendly technology, to convince firms to adopt core labour and human rights standards, to give priority to exports manufactured using sustainable methods, and in the agricultural sector, the use of organic certification and good agricultural practices. As far as the protection of biological diversity is concerned, several issues are covered: access to genetic resources and fair sharing of the benefits from exploiting them (*access and benefit sharing*), traditional knowledge and geographical indications. In the case of the United Nations Framework Convention on Climate Change, Switzerland supports the promotion of pilot projects in the industrial sector through the clean production programme, the creation of new market mechanisms for trading CO_2 emission rights and strengthening of the Kyoto Protocol-related institutions.

1.103. For many developing countries, the *promotion of organic farming* or *fair trade products* provides a good opportunity to penetrate agricultural markets in Switzerland and the EU. It also helps to increase the local value added of basic and processed agricultural products. In Switzerland, high-quality regional specialities with acknowledged properties are also a good trade outlet. This is why trade-related cooperation projects aim to improve market access for such niche products. In addition, Switzerland is taking further steps to promote sustainable development in mass markets. Minimum social and environmental criteria are defined in agreement with representatives of interest groups in the various links in the value-creation chain (producers in developing countries, representatives of wholesalers, retailers and the agri-food industry) and with non-governmental organizations. In an effort to increase the use and the impact of such private voluntary standards, Switzerland supports initiatives intended to provide better information on the various standards, to improve and harmonize tools for training producers regarding the various standards and to involve decision-makers in emerging and developing countries more closely in the international discussions on such standards. Along the same lines, Switzerland supports the Global Reporting Initiative (GRI) and the United Nations Global Compact so as to expand the respective networks in emerging countries and, thereby, respond better to local needs in relation to sustainable management and reporting.

1.104. Switzerland spends around SwF 120 million a year on its *trade-related co-operation programmes*.

1.3.2.4 Rules and disciplines

1.105. In multilateral forums, Switzerland is constantly seeking to adapt *rules* and *disciplines* to enable governments to respond to the challenges of globalization. Its efforts in the Doha Round to maintain a fairly broad programme of negotiations in order to satisfy all 159 Members of the WTO are along the same lines. During the period under review, Switzerland was not involved (either as a complainant or as a defendant) in any *dispute settlement* case in the WTO.

1.3.2.5 Export promotion

1.106. The *Swiss Export Risk Insurance Scheme* (SERV)[38], an autonomous agency of the Confederation with its own legal status, has its basis in the Federal Law of 16 December 2005 on Swiss Export Risk Insurance (LASRE; RS *946.10*)[39]; it is subject to monitoring by the Federal Council, which is the responsibility of the Federal Department of Economic Affairs, Education and Research (EAER) and is exercised by the SECO. The SERV introduced four new products in 2009: working capital insurance[40], counter guarantees[41], refinancing guarantees[42] and letter of credit confirmation insurance.[43] The introduction of the first three products required the creation of a legal basis, namely, the Federal Law of 20 March 2009 on the provisional extension of services by the SERV (RS *946.11*), originally scheduled to end in December 2011. In October 2011, this law was extended until the end of December 2015. Several SERV measures contained in the implementing ordinance were also revised in October 2011, for example, the rate of cover for supplier credit insurance, which rose from 85% to 95%.

1.107. *Export promotion* by the State is based on the Federal Law on export promotion of 6 October 2000 (RS *946.14*), under which every four years the Federal Assembly determines the ceiling for spending on export promotion measures. In September 2011, members of the Assembly decided to continue promoting exports for the period 2012 to 2015, setting an overall spending ceiling of SwF 84 million. Implementation of export promotion measures has been outsourced and entrusted to Osec, a private and independent association, with the aim of helping firms in Switzerland and Liechtenstein, particularly SMEs, to pursue their current export activities and develop new ones. Complementing private initiatives according to the principle of subsidiarity, Osec provides firms with general information on markets, the various branches and certain aspects of external economic affairs. It also gives them advice on export-related matters and supports their marketing efforts abroad (participation in fairs). During the period under review, as part of the third stage of the Confederation's cyclical stabilization measures in 2009, Osec was granted SwF 25 million as initial financing for the introduction of three platforms to promote exports specializing in clean technology (cleantech), medical technology (medtech), and architecture, engineering and design. These platforms are entrusted with facilitating access by SMEs to promising export markets in the branches in question. They enable Switzerland's offer to be consolidated, better identification of foreign demand and improved networking of firms with exchange of information among them. Umbrella trademarks make Swiss SMEs more visible on the markets targeted. These three export platforms are set up in the form of associations and have been operating since summer 2010. They have until 31 December 2015 to achieve financial autonomy.

1.3.2.6 Other external policy priorities

1.3.2.6.1 Environment

1.108. Switzerland plays an active role in all international negotiations on the *environment* in order to promote *sustainable development* worldwide. The relevant legal basis for this is the Swiss Constitution (Articles 2, 54 and 73) and, in particular, the Federal Law on protection of the environment (LPE, RS *814.01*)[44], together with the Federal Council's reports on foreign policy.[45] Switzerland considers that implementing trade-related measures that are both non-discriminatory and non-protectionist within the framework of multilateral environmental

[38] See http://www.serv-ch.com/en.
[39] See http://www.admin.ch/ch/e/rs/946_14/index.html.
[40] The SERV's working capital insurance provides insurance against losses on manufacturing credits that are granted to Swiss exporters and used to manufacture goods whose export is insured by the SERV.
[41] Under the counter guarantee, the SERV undertakes to remit specific compensation to the financial institution issuing the guarantee, at the exporter's request, in the event of the contract bond being called and the non-fulfilment of contractual obligations on the part of the exporter.
[42] Under the refinancing guarantee, the SERV guarantees the refinancing institution to fulfil the payment obligations of the bank granting export credit in the event of non-payment.
[43] The SERV insures letters of credit used to pay debts due to Swiss exporters against non-payment by means of letter of credit confirmation insurance. The banks thus endorse letters of credit from foreign financial institutions, the risks of which they would not have accepted without such insurance.
[44] See http://www.admin.ch/ch/e/rs/c814_01.html.
[45] See http://www.admin.ch/ch/e/ff/2012/2677.pdf for the 2011 report and http://www.eda.admin.ch/eda/en/home/doc/publi/ppol/polit.html#ContentPar_0012 for the previous reports.

agreements is, under certain circumstances, the most effective way of ensuring that environmental objectives are met. The implementation of environmental regulations is chiefly the responsibility of the Federal Office for the Environment (OFEV).[46] The Office considers that environmental policy must also be designed as a policy for managing natural resources and long-term protection of natural capital. Likewise, policies in areas such as agriculture, electricity, transport, trade and development aid must automatically incorporate environmental concerns.

1.109. Switzerland strives to ensure that the *principles* enshrined in its Constitution and legislation – namely, *protection of the environment* and the *precautionary, polluter pays* and *sustainable development principles* – are also applied at the international level. The protection and sustainable use of natural resources are incorporated into other areas of foreign policy. Switzerland's objective is to ensure that *environmental agreements* are negotiated and implemented *consistently*, while at the same time taking into account *international trade commitments*. It is nevertheless aware of the fact that trade agreements give States a margin of manoeuvre in respect of the environment, a margin that can be used to the benefit of the economy without becoming a discriminatory barrier to trade, for example, through the promotion and transfer of environmental technology. Within the WTO and in its bilateral trade policy (free trade, investment), Switzerland pursues the objective of achieving a balance between trade and environmental regulations. In the WTO negotiations, it supports the establishment of a list of environmental goods for which trade would be facilitated. It considers, however, that production processes and methods must be taken into account when defining certain environmental goods inasmuch as these may have a decisive effect on the environmental impact (biofuels for example). In the interests of free trade, Switzerland wishes to see harmonization of the relevant regulations in various environmental agreements. The initiatives in favour of a Green Economy launched within the framework of the United Nations Environment Programme (UNEP) and the OECD should in the long term lead to an international regime for the effective and equitable management of natural resources. Switzerland cooperates with other governments in order to ensure that the laws governing import and export of goods that might be hazardous to human health or the environment, including hazardous wastes, toxic chemicals, biocides and ozone-depleting substances, are consistent.

1.110. Switzerland is committed to institutional reforms that will help to achieve more effective implementation and, if needed, further development of existing international environment-related regulations and processes. It has ratified the major *multilateral environmental agreements*. These concern the *climate, biological diversity* and *chemicals.* With regard to the latter, Switzerland welcomes the amalgamation of the Secretariats of the Basel, Rotterdam and Stockholm Conventions. It is working towards the conclusion of a binding agreement on mercury. In relation to *climate*, it is in favour of setting legally binding objectives for the reduction of greenhouse gases for all industrialized countries, but also for emerging countries that are large emitters depending on their capacities. It is ready to agree to a second period of commitments under the Kyoto Protocol from 2013 onwards. Switzerland and the EU are negotiating on setting up a network for their emission quota trading systems. The central element of Switzerland's climate policy is the law on CO_2, which was revised in 2011, *inter alia,* with a view to the post-Kyoto period (see Section 1.3.1.6 above). Since July 2008, Switzerland has exempted *biofuels* that have a positive ecological and social impact from the tax on mineral oils. In relation to the *Convention on Biological Div*ersity (CBD), Switzerland supports the implementation of the 2011-2020 global strategic plan. It calls for clarification of financial needs in relation to the CBD. Switzerland would like see synergies deepened and more cooperation among the various biodiversity-related conventions. It intends to make efforts to ensure that the Global Environment Facility (GEF) is given the resources needed in relation to biodiversity and is made more effective. Switzerland supports the study entitled The Economics of Ecosystems and Biodiversity (TEEB), which proposes a framework for taking into account the value of biodiversity and ecosystemic services. It adopted a national biodiversity strategy in April 2012 and will draw up an action plan up to mid-2014 to give effect to the ten objectives in this strategy.

1.3.2.6.2 Core labour standards

1.111. As regards the promotion of *core labour standards*, Switzerland has emphasized the importance of this aspect at the WTO: it has called for trade topics, on the one hand, and social issues, on the other, to be dealt with in a coherent fashion (Singapore Consensus, reaffirmed at

[46] See http://www.bafu.admin.ch/index.html?lang=en.

Doha in 2001). Switzerland has also made clear that the WTO must deal with trade and not address the question of human rights independently. The WTO - like other international organizations - should confine itself to its areas of competence, while at the same time ensuring that the provisions it develops are consistent with those developed in other international organizations, and vice-versa. Both at the WTO and the ILO, Switzerland is committed to ensuring that cross-cutting issues such as *trade and social standards* are dealt with *consistently* and *globally*. It calls for stronger and more effective cooperation between the WTO and the ILO and supports observer status at the WTO for the ILO. Two important publications on the issue of globalization and labour markets were published jointly by the WTO and the ILO at the end of 2011. These two publications are a constructive contribution to the current debate on the relationship between trade and development at the national, regional and global levels. They include proposals concerning the way in which consistent trade and social policies can help to promote quality jobs together with adequate protection in the context of open markets.[47]

1.112. The *social dimension of globalization* is an important priority for Switzerland. The development and effective implementation of fundamental labour principles and rights, as well as the ILO's eight related core standards, are a prerequisite for a fair globalized economy.

1.113. Switzerland ensures that its economic liberalization policy benefits the largest possible number, that it is supported by the population and does not call into question harmonious social and labour relations. Consequently, its economic liberalization policy is accompanied by a strong social component. Switzerland therefore supports a strong and credible ILO to promote fundamental labour principles and rights. It is actively working to accompany the social dimension of globalization through decent work and workers' rights. This is why Switzerland advocates the promotion of social peace and justice throughout the world. For Switzerland, the opening of markets has, in the long term, a positive impact on growth and well-being. It therefore seeks to ensure that unregulated liberalization does not have negative effects, opposing those who have lost out from liberalization and those who benefit from it.

1.114. Decent work is a universal objective, recognized as one of the main ways of achieving the objective of development. The promotion of paid and freely chosen employment is thus a political priority for effectively combating poverty.

1.115. Switzerland has a strategy for commitment at the ILO that is based on a sustainable social development approach and on the need to reinforce the coherence of government and multilateral political action. The strategy has three axes: working towards a stronger ILO, credibly applying and promoting the ILO's principles and standards in Switzerland, and promoting decent work throughout the world.

1.4 Switzerland and negotiations at the WTO

1.116. The key priorities of Switzerland's foreign economic policy remain economic openness and continued liberalization of international trade at the multilateral, regional and bilateral levels.

1.117. At the *multilateral* level, the Swiss Government considers that the trend towards accelerated globalization involves both opportunities and challenges for all stakeholders in international trade. The resulting interdependence of economies means closer multilateral cooperation and stronger institutions. In this context, it is the Swiss authorities' view that a *major role must be played by the WTO* in relation to gradual liberalization of international trade, the establishment of rules, rights and obligations governing international trade, and the settlement of disputes.[48] Currently, the foremost priority must, however, be to preserve what has been achieved at the WTO, in other words, guarantee the integrity of the Agreements and of the dispute settlement system and, on that basis, rein in protectionist trends. As long as Members continue to observe the WTO Agreements and to settle their trade disputes through its dispute settlement mechanism, the system will function. Switzerland also considers it necessary to promote *consistency* between external economic policy activities and other government policies at both the national and multilateral levels.

[47] http://www.ilo.org/trade; the first work is a joint ILO-WTO publication entitled *Making globalization socially sustainable*. The second is entitled *Trade and employment: From myths to facts*.

[48] See http://www.seco.admin.ch/themen/00513/01122/01124/index.html?lang=en.

1.118. In the short term, Switzerland believes it is important to seize the opportunity afforded by the Ninth WTO Ministerial Conference, to be held in Bali from 3 to 6 December 2013. The aim of Members with a view to Bali should be to reach a significant and balanced outcome and to help to reinforce the multilateral trading system, while at the same time being aware that such an outcome will represent neither the end of the road nor the conclusion of all the negotiations under way at the WTO. Nevertheless, this new phase should constitute a solid basis for the future work of the WTO and help to maintain its relevance in the twenty-first century. Switzerland is firmly committed to the conclusion of agreements based on *paragraph 47 of the Doha mandate*. An agreement on *trade facilitation* should be at the heart of Bali's outcome, together with *development-related issues* of benefit to the LDCs in particular and certain issues concerning *agriculture.* At the same time, together with many other Members, Switzerland is actively working towards an updated *Agreement on information technology* and the negotiation of an ambitious *International agreement on services.* Such an agreement should be open to all WTO Members ready to participate. In addition, in order to support the integration of the developing countries, particularly LDCs, into global trade, Switzerland will work towards development of the *Aid for Trade* initiative. As part of its economic cooperation, Switzerland encourages in particular trade that respects sustainable development. This approach is intended to build export capacity and competitiveness in firms in partner countries while at the same time facilitating the import of goods to markets in the developed countries. Lastly, Switzerland also welcomes the decision on facilitating accession of LDCs to the WTO, adopted by the General Council on 25 July 2012.

1.119. It nevertheless remains true that one of the major challenges that Members will have to face in the long term will be to ensure that the progress made so far in the Doha Round is not called into question and that, when the time comes, it leads to a successful outcome to the negotiations in all areas.

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2 REPORT BY LIECHTENSTEIN

2.1 Introduction

2.1. With a surface of 160 square kilometers, a resident population of about 36,000 and therefore a very limited domestic market, Liechtenstein has a constant track record of efforts to extend its economic integration with larger economic areas. This report on the Fourth Trade Policy Review of Switzerland and Liechtenstein presents the developments of the economic union between Switzerland and Liechtenstein during the past four years. Liechtenstein is an integral part of the Swiss customs territory, the two countries form a monetary union, and many other bilateral treaties, such as the Patent treaty, closely link them. This economic union has already existed for more than 90 years and constitutes a central building block for Liechtenstein’s economic access to the world markets.

2.2. The Trade Policy Review reflects at the same time the high degree of integration of Liechtenstein in the European Economic Area (EEA). The EEA Agreement forms the legal basis for economic cooperation between the three EEA EFTA States (Iceland, Liechtenstein, and Norway) and the EU (27 Members). As a party to the EEA Agreement, Liechtenstein fully participates in the EU's Internal Market, which is based on the principle of the free movement of goods, services, capital and persons, with uniform and common rules governing competition, including state aid. In addition, the Agreement covers cooperation in research and development, education, social policy, the environment, consumer protection, tourism, and culture. For the last 17 years, the EEA agreement has been the most important pillar for Liechtenstein’s economic actors to participate in the European markets.

2.3. These two legal and political frameworks – customs and monetary union with Switzerland and full participation in the European internal market – constitute the basis on which the Liechtenstein Government has been designing its reaction to the shockwaves caused by the global financial and economic crisis since 2009 and the escalation of the sovereign debt crisis in spring 2010. In addition, reform measures to adapt the economic environment to the challenges and opportunities of further globalization have been put in place during the last four years, such as the strengthening of regional cooperation to foster research and innovation or the adoption and implementation of a completely revised new tax law.

2.4. Liechtenstein is firmly committed to the rules-based, transparent and open multilateral trading system of the World Trade Organisation (WTO). The trading system of the WTO is another central pillar of Liechtenstein's economic policy since an open and well-functioning multilateral trading system is fundamental to economic growth and development. Liberalisation of trade at multilateral and regional levels (via WTO and European Free Trade Association (EFTA)) is a high priority of Liechtenstein's foreign economic policy. One of its main objectives is to ensure and to extend market access.

2.5. In an economic environment which is increasingly internationally linked and globally dependent, it is vital to promote general conditions for business activities which are stable and favorable. In addition to political continuity, this requires a predictable legal and social as well as a liberal economic order. The level of State intervention in economic processes is kept low. They are facilitated by fast administrative channels, a low level of bureaucracy and business-friendly tax legislation.

2.2 Trade and economic policy environment

2.6. During the last four years, the Liechtenstein Government has continued to adhere to its long-standing liberal economic policy based on self-dependent economic actors and state interventions that are limited to the establishment of framework conditions which are favourable to enterpreneurship. At the same time Liechtenstein incorporated newly adopted *acquis communautaire* (over 6,500 EU legal acts are relevant for the EEA) into domestic law and expanded the network of free trade agreements together with the other EFTA Member States.

2.7. The enactment of a new law regulating the general framework for the provision of services in Liechtenstein by EEA nationals, either as permanent establishment or as temporary cross-border provision is one example for this policy. The main elements of the law consist in the designation of a single interlocutor in the national administration (one-stop-shop-principle), the tightening of deadlines for the issuance of a decision to a maximum of six weeks as well as the introduction of the general assumption that an authorisation has been provided if that deadline is not met. Liechtenstein has also implemented a new agricultural law with a focus on sustainable agriculture and entrepreneurial orientation. Great efforts have finally been put into the creation of new and the improvement of existing laws in the context of financial services in order to comply with evolving international standards while providing the basis for future business opportunities.

2.2.1 Economic growth

2.8. Liechtenstein's economy is small in absolute terms, poor in natural resources and highly export-oriented with a large share of value added in industry (39% of GDP in 2010). These factors are reflected in the impact of the global financial and economic crisis on Liechtenstein's economy during the last four years. Following a sharp fall in GDP growth in 2009 of almost 11%, Liechtenstein enjoyed a quick recovery with an increase of 8.7% in 2010, amounting to a total GDP of SwF 5.3 billion (compared to 5.5 in 2008 and 4.9 in 2009). With the massive strengthening of the Swiss franc in the wake of the sovereign debt crisis in the Euro zone, Liechtenstein’s export industry has become under additional pressure. Owing to the high GDP share of trade in goods and services, expectations are that the Liechtenstein economy will feature growth between 0.1-0.5% in 2012-2013. There continue to be internal constraints for further growth as well, namely the very low supply of and the high prices for land and property as well as the dried-out domestic labour market.

2.9. In spite of the considerable fluctuation with regard to GDP growth Liechtenstein's economy has continued to steadily create new jobs. The total number of jobs increased from 33,415 in 2008 to 34,334 in 2010, reaching a further high in 2011 with 35,253. More than half of the employed persons (18,279) in 2011 commuted daily from neighbouring Switzerland and Austria or from Germany. Compared to the total of the resident population (36,475 in 2011), the high proportion of job creation remains a particular feature of Liechtenstein's economy. In 2011, 43.2% of the labour force worked in industry, 56% in services and 0.8% in agriculture. By international comparison, the very low proportion of agriculture and forestry is striking, as is the relatively high proportion of the manufacturing sector. The services sector is smaller than in other European countries. Unemployment rates during the last four years ranged between 2.3% (2008) and 3% (2009) as well as 2.2% (2010) and 2.3% (2011).

2.10. Industrial direct exports, excluding exports to or through Switzerland, increased from SwF 3,081 million in the year 2009 to SwF 3,325 million in 2010 and to SwF 3,329 million in the year 2011 which amounts to approx. SwF 90,000 per inhabitant. The most important export country of Liechtenstein's industry and goods production sector remains Switzerland, followed by Germany and the United States.

2.11. At the end of 2011, the 17 Liechtenstein banks, including their foreign group companies, managed client assets in the amount of SwF 166 billion. This represents a decline of 1.3% since the previous year. The net inflow of new assets rose by 21.5% from SwF 5.8 billion in the previous year to SwF 7.1 billion in 2011. Client assets under the management of the Liechtenstein banks without foreign group companies amounted to SwF 117.1 billion at the end of 2011 compared with SwF 121.2 billion in the previous year. They recorded a net outflow of new assets in the amount of about SwF 0.5 billion.

2.12. As regards insurance services, 21 life insurance, 14 non-life insurance, and 5 reinsurance undertakings operated with registered offices in Liechtenstein at the end of 2011. 12 undertakings operated as captives, of which 7 as direct insurers and 5 as reinsurers. The number of insurances thus stayed constant compared with the previous year. Liechtenstein is the only insurance center that offers insurance undertakings direct access both to the countries of the European Economic Area and to Switzerland.

2.13. The Liechtenstein fund center is a young market that has grown successively in recent years. Thanks to Liechtenstein’s membership in the EEA, investment undertakings benefit from free access to the European market.

2.14. Liechtenstein has the same inflation rate as Switzerland (2008: 2.3%, 2009: 0.7%, 2010: 0.6%, 2011: 0.1%). Interest rates continuously decreased and reached a historical low in 2011. There are no figures available reflecting private consumption or investment.

2.15. The situation of the Liechtenstein national budget in the period 2008-2011 was overall marked by a downward trend. Fiscal consolidation is one of the priorities of the Liechtenstein government. In recent years, Liechtenstein has been confronted with less revenues and higher expenditures. This was due to, amongst other factors, the economic and financial crisis, the general demographic development, and structural changes in the financial sector. Up to 2009 national budget has always had a surplus. Since 2010 Liechtenstein has run a budget deficit in each year. In 2013, the Government expects a budget shortfall of SwF 209 million (3.8% of 2010 GDP). In order to continue its policy of zero external debt and to stop the further reduction of state reserves, budget consolidation is being pursued through tight cost controls and measures to secure revenues. The Government aims to reduce public expenditures by SwF 180 million (3% of 2010 GDP) through a comprehensive action plan by 2015.

2.2.2 The economic sectors

2.16. Liechtenstein's economy is broadly diversified by sectors, businesses and products. The average value added is very high, based on research and development, qualified expertise, a wide range of high-tech and niche products, strong export orientation of its industry, and a highly developed financial services sector. Its services sector covers more or less all services of the UN services classification system. The rate of investment in research and development compared to GDP currently stands at the remarkable figure of 6.8%.

2.17. As an average over the past four years about 38% of the GDP is the result of value added in industrial production and manufacturing, 29% in general services, 27% in the financial services sector and the remainder in household, agriculture and forestry. At the end of 2010 Liechtenstein's economy accounted for 3,827 businesses (i.e. an average of one business per 10 inhabitants). More than 70% of these are small businesses (1 to 9 employees) while 17 companies have more than 250 employees.

2.18. The primary sector employs 0.8% of the total workforce. The number of employees in the primary sector decreased by 0.3% during the past four years. Liechtenstein is a net food importer. Two thirds of the gross agricultural return is produced by the dairy industry. Some 90 farms produce 13 to 14 million kg milk per year. The Liechtenstein agricultural sector has in the last decades and years gone through tremendous structural changes. It plays an important role for the sustainable maintenance of hilly and mountainous areas, which make up two thirds of Liechtenstein's territory.

2.19. Liechtenstein's agriculture is closely linked with Switzerland. The new law on agriculture of 11 December 2008 is a framework legislation which consolidates the former legislative acts on agriculture without introducing fundamental changes. It provides the legal basis for Government ordinances in different fields related to agricultural activities and allows the necessary flexibility for the Government to adapt to the continuously changing environment with regard to agriculture. It is aimed at increasing the competitiveness of Liechtenstein's agriculture sector and maintaining market conditions similar to those in Switzerland. As new elements the law introduced the definition of professional requirements for the recognition as a farmer and the further promotion of their entrepreneurship. A special focus continues to be placed on sustainable agriculture.

2.20. Liechtenstein has evolved in the last fifty years from an almost purely agricultural State into one of the most highly industrialized countries in the world. Lacking a significant home market, virtually all goods produced are exported. Therefore, Liechtenstein’s industry, specialized in high-tech niche products, was from the outset exposed to international competition. The high dependence on export constitutes a certain vulnerability of Liechtenstein’s industrial sector, although it is, thanks to its specific range of products and the diversity of its export markets, relatively well managing the current economic crises. The most important branches of the internationally competitive industrial sector are mechanical engineering, plant construction, manufacturing of precision instruments, dental technology, electronic control devices, vacuum, heating and lighting technology, dentistry and pharmaceutical products and food-processing industry. The per capita value of exports is considerably higher than the corresponding value for Germany, Austria or Switzerland.

2.21. Financial services also constitute an important economic sector in Liechtenstein (27% of GDP in 2010). Private wealth management dominates the financial centre today, offering a broad product portfolio. Fiduciary services and private banking account for approximately 80% of the added value generated by the financial centre, while the rest is generated by insurers, the fund industry, independent asset managers and others. Globalization has an important effect on the competitive situation of the Liechtenstein financial centre. The most important challenges include the worldwide opening of markets, rapid technological progress, and the accelerating cycles of innovation. These challenges have changed the framework conditions and rules of the game for international competition.

2.22. As an EEA member, Liechtenstein implements relevant EU legislation. Accordingly, banking, insurance, securities and accounting legislation is based on the relevant EU Directives. Because of the close monetary links with Switzerland, financial institutions are also required to meet the accounting guidelines of the Swiss regulatory authority.

2.23. After the Liechtenstein financial sector overcame the global financial crisis of 2007–2008 comparatively well, its income situation started to worsen noticeably. Earnings fell in 2011 and are now at low levels in parts of the Liechtenstein financial sector, while turnover has stagnated or fallen. The short- and medium-term income and growth outlook of the financial sector is dampened, since persistently difficult market circumstances and increasing regulatory and administrative costs must be assumed.

2.24. The strong Swiss franc represents a challenge in that a large and growing share of turnover is being generated abroad in foreign currencies. When the Swiss franc appreciates, the turnovers reported in francs drop accordingly. The same is true of income. Most of the costs of the financial sector are incurred in Swiss francs, however, to the extent the parent companies are located in Liechtenstein. This leads to a worsening ratio of costs and income. In the longer term, there is a risk of shifting costs abroad unless the currency situation returns to normal.

2.25. The Liechtenstein financial sector is facing this phase marked by high uncertainty with a comfortable capacity to bear risks. Capital resources in recent years have risen again, and equity ratios are far above the international standards. The consistent orientation toward private banking, the high equity backing, and the conservative attitude toward new risks offer safeguards for a stable financial center and security for bank clients.

2.26. On 12 March 2009 the Liechtenstein Government adopted the "Liechtenstein Declaration". Through this declaration, Liechtenstein publicly expressed its commitment to implement global standards of transparency and exchange of tax information as developed by the OECD and to advance its participation in international efforts in order to counteract non-compliance with foreign tax laws. With the declaration, Liechtenstein also clarified its position regarding privacy and banking secrecy and confirmed its readiness to speed up the negotiation of tax information exchange and other agreements with a view to having a network of such arrangements in place as soon as reasonably possible in order to address the global issue of tax fraud and tax evasion as well as the legitimate interests of its export industry to avoid double taxation. Since the publication of the declaration Liechtenstein has negotiated and concluded a high number of Tax Information Exchange Agreements as well as some Double Taxation Agreements and has revised its national legislation for the implementation of these agreements. It is actively participating in the work of the OECD Global Forum on Taxation where it has passed into the second phase of the peer review.

2.27. Liechtenstein has a vital interest in the worldwide enforcement of internationally recognized standards to prevent abuse of the financial markets. Liechtenstein's foreign policy therefore pays great attention to the development and international enforcement of uniform rules to prevent and combat money laundering and the financing of terrorism. At the national level, legislative, administrative and other practical measures have been taken in the last years to achieve this goal, and the relevant standards in Liechtenstein have been acknowledged by international bodies. In 2007, Liechtenstein underwent the second Financial Centre Assessment by the IMF. The IMF certified the FMA’s effective measures in the fight against money laundering and financial transactions with a terrorist background. In 2013 its performance will again be assessed during the third Financial Centre Assessment by the IMF.

2.2.3 State activities

2.28. The Government of Liechtenstein neither provides export subsidies or guarantees, structural policy nor subsidies to companies with the exception of farms. Furthermore, the Government has no possibility to influence an exchange rate increase of the Swiss franc. The main features of the playing field set by the Government's economic policy are trade laws, stability and reliability of the policy, the creation of high quality educational systems, a business-friendly tax regime, low administrative burden and a slim and customer oriented public administration.

2.29. With the aim of further promoting an investor-friendly environment in accordance with relevant EEA law, the Liechtenstein tax act has been fully revised. The new tax act of 2011 replaced the tax act of 1961. Under the new tax act legal persons taxable in Liechtenstein and engaged in economic activities are subject to a corporate income tax of 12.5%. The existing capital tax has been abolished. Income and gains from participations are tax-exempt, and losses carried over are no longer subject to a time limit. In addition, a notional interest deduction has been introduced. Other important innovations include group taxation for affiliated companies and deductions for income from intellectual property rights. The new tax act also contains provisions on the tax treatment of national and cross-border restructurings.

2.30. The new tax regime further provides for the elimination of the "special company taxes" for domiciliary or holding companies, since this special tax type threatened to violate the EEA Agreement with respect to the prohibition of State aid. As a consequence, the new tax act contains provisions for a private asset structure, which facilitates taxation of asset management companies. The compatibility of these provisions with EEA law was confirmed by the EFTA Surveillance Authority in its decision of 15 February 2011.

2.31. On the basis of a new Location Marketing Act a public entity called "Liechtenstein Marketing" has been established to promote and raise the profile of Liechtenstein internationally as a highly diversified place to do business and as an attractive tourism destination.

2.32. Besides participation in the Competence Centre for Small and Medium-Sized Enterprises (SME) under the direction of the Liechtenstein University of Applied Science (the Centre advises young professionals and companies in the growth phase on business planning and management, arranges contacts with financial institutions, investors or potential business partners) the Liechtenstein Government has also launched, together with the authorities of the neighbouring Swiss canton of St. Gallen, the establishment of the "RhySearch" centre. Under the umbrella of this centre for research and innovation several Swiss universities and the Liechtenstein University of Applied Science will cooperate and facilitate access for SME in the Rhine Valley to research activities carried out by those institutions.

2.33. Due to the country's small territory and in view of the high proportion of non-Liechtenstein citizens of the total resident and working population (33% and 68% respectively), Liechtenstein regulates new investments (green field investments) and immigration. By regulating foreign direct investments (also for non-resident Liechtenstein citizens) the Government respects the limited territory with its rural character and preserves access to real estate for the resident population. Compared to the last Trade Policy Review of Switzerland-Liechtenstein the portion of non-Liechtenstein citizens of the resident and working population has not changed. Therefore, the Government does not see any leeway to ease restrictions concerning immigration and employment. In view of this specific situation, Liechtenstein has, even in the EEA, been granted special rules concerning the free movement of persons.

2.3 Trade policy developments and future policy directions

2.34. The framework of the trade environment of Liechtenstein is outlined by the Customs Union Treaty with Switzerland, Liechtenstein's membership in the European Free Trade Association (EFTA), the EEA and the WTO. These vessels allow Liechtenstein to participate in the multilateral trading system but at the same time to join, as a complementary tool, deeper economic cooperation in regional agreements. So far Liechtenstein has not been involved in any WTO or EFTA dispute case.

2.3.1 The World Trade Organization (WTO)

2.35. The WTO system has to respond with flexibility to the realities and needs of this century's globalized economy and to the increasingly diverse situations of its members. Improved market access means more trade, and more trade is beneficial to all, developed and developing countries alike. Furthermore, it offers opportunities for an increase in trade among developing countries. The multilateral trading system is a proven vehicle in promoting economic development and growth and is central to the future prosperity of our nations. In the view of Liechtenstein there exists no alternative to the WTO multilateral trading system. The multilateral system has to be strengthened.

2.36. Services form an important part of the overall package of the current negotiating Round. Services account for a large part of economic growth, both in industrialized and developing countries. Therefore, Liechtenstein welcomes the initiative on a possible ambitious plurilateral trade in services agreement.

2.3.2 The European Economic Area (EEA)

2.37. The EU is the most important market for Liechtenstein's economic operators and the EEA with its four freedoms has given them an appropriate legal framework. As a consequence of this agreement, a large part of Liechtenstein's economic legislation is based on EU law. Mid 2012, Liechtenstein had implemented 99.6% of the relevant internal market rules, which is above the EU average. Liechtenstein's legislation in the respective areas is therefore equivalent with European law.

2.38. The relationship between Liechtenstein and the EU is not limited to the EEA. In 2004, Liechtenstein concluded negotiations with the EU on the taxation of saving interests. Since January 2012, Liechtenstein participates in the areas of Schengen and Dublin (open borders, visa, asylum, etc.). Association with Schengen and Dublin supplements and deepens Liechtenstein's integration in Europe in the areas of justice, home affairs, and asylum. Schengen provides the legal basis to grant legal assistance in cases of fraud relating to both direct and indirect taxes. The negotiations on an Anti-Fraud Agreement between Liechtenstein and the EU and its Member States were largely concluded in June 2008. The agreement strengthens information exchange in the case of tax offences, with respect to both indirect and direct taxation.

2.39. The EEA had shown in its past that it offers a stable contractual framework for economic relations with the EU. Adaptations might in particular be necessary, should one or the other EFTA State change its integration policy towards the EU.

2.3.3 The European Free Trade Association (EFTA)

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

2.41. Since the early 1990s, EFTA has established an extensive network of contractual relations with States and Territories in Central and Eastern Europe, in the Mediterranean region and overseas. As of today, the EFTA States have a network of 24 Free Trade Agreements with a total of 33 partner countries and territories around the world: with Albania (2010), Canada (2009), Chile (2003), Colombia (2011), Croatia (2001), Egypt (2007), Gulf Co-operation Council (GCC, comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates), Hong Kong, China (2012), Israel (1992), Jordan (2001), Lebanon (2004), Macedonia (2000), Mexico (2000), Montenegro (2012), Morocco (1997), Palestinian Authority (1998), Peru (2011), Serbia (2010), Southern African Customs Union (SACU, comprising Botswana, Lesotho, Namibia, South Africa and Swaziland) (2006), Singapore (2002), the Republic of Korea (2005), Tunisia (2004), Turkey (1991) and Ukraine (2012). The FTAs concluded by the EFTA States aim at enhancing mutual market access and ensuring that economic operators are granted non-discriminatory treatment vis-à-vis their main competitors in these markets.

2.42. EFTA is currently engaged in free trade negotiations with Algeria, Bosnia-Herzegovina, four Central American States (Costa Rica, Guatemala, Honduras and Panama), India, Indonesia, Thailand, Customs Union Russia-Belarus-Kazakhstan as well as with Vietnam. The negotiations with Malaysia will start soon. Furthermore, the EFTA States explore the possibility to open negotiations with other third countries.

2.3.4 Customs Union Treaty/Economic Integration with Switzerland

2.43. The close cooperation with Switzerland is reflected in many (more than 50) bilateral treaties, the most important of them being the Customs Treaty and the Currency Treaty. The Customs Treaty, in combination with other agreements pertaining to the movement of persons, made possible the abolition of any border or customs control between the two countries. Of equal practical importance to Liechtenstein's economy is the Currency Treaty which forms the legal basis for using the Swiss franc as the official currency in Liechtenstein.

2.44. The provisions of the Customs Treaty stipulate that the Swiss laws pertaining to customs as well as other federal legislation necessary for the implementation of the customs-free zone are applicable in Liechtenstein. In addition, trade and customs treaties concluded by Switzerland with third parties (with the exception of the EEA countries) also apply to Liechtenstein on the basis of the Customs Treaty. Switzerland is authorized to represent Liechtenstein in relevant negotiations and to conclude such treaties with effect in Liechtenstein.

2.45. The Customs Union Treaty facilitated the bilateral cooperation far beyond its original scope of application, in particular in the areas of social welfare (health, social security), education (vocational and professional training), transport and environment. The entry into force of the revised EFTA Convention on 1 June 2002 has led to an additional integration step in the relations between Liechtenstein and Switzerland.

2.46. The integration policy both countries choose towards the EU in future may have a major influence on the further development of the existing close links.

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