Switzerland has traditionally sought to strengthen a rule-based international trading system, emphasizing international mechanisms, as against unilateral actions, as the appropriate means of pursuing national economic objectives and settling disputes, says the GATT Secretariat's report on Switzerland's trade policies and practices.

Confronted with new challenges within a rapidly changing European and international environment, Switzerland is pursuing closer international cooperation as a potential means of overcoming long-entrenched internal rigidities. Reform requirements in the context of a European Economic Area may be viewed as complementary to Switzerland's commitment in the Uruguay Round.

The report points out that while Switzerland's trade regime for industrial products is generally open, agricultural policy, in contrast, is subject to rigid administrative instruments which tend to perpetuate existing production patterns at the expense of more efficient producers. These restrictive agricultural policies apply to many areas of importance to developing countries and to the reforming economies of central and eastern Europe. Shielding the agricultural sector from competition and from incentives to rationalize has also placed high burdens on Swiss consumers who have to bear some four-fifths of total policy costs.

Switzerland is, however, in the process of reconsidering its traditional policy approaches. It seeks to define its future rôle with relation to European integration and reforms in eastern Europe. In order to bear fruit, any reforms would need to expose hitherto regulated and cartelized markets to more competition. This would mean expanding the basic principles of Switzerland's
trade policy in the industrial sector to other segments of the economy and to other domains of policy-making. Ensuring transparency and open markets across the board, within a clearly defined legal framework, may prove the acid test for any meaningful reform package geared at maintaining Switzerland’s competitive edge in a changing European and international environment.

The GATT Secretariat's report, together with a report prepared by the Swiss Government, will be discussed by the GATT Council on 25-26 September 1991. The comprehensive examination of Switzerland's trade policies is conducted under the trade policy review mechanism (TPRM) which was launched in December 1989 to enable a regular collective evaluation by the GATT Council of the full range of trade policies of individual GATT members.

The reports cover all aspects of Switzerland’s trade policies, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; and the wider economic and development needs.

Attached are summary extracts from the reports. Full reports are available for journalists from the GATT Secretariat on request.

The complete trade policy review of Switzerland, including these two reports together with a record of the Council's discussions and of the Chairman's summing-up, will be available in due course from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, reviews of the following countries have been completed: Australia, Canada, Chile, Colombia, the European Communities, Hong Kong, Hungary, Indonesia, Japan, Morocco, New Zealand, Sweden, Thailand and the United States.
Switzerland in World Trade

Until the mid 19th century, Switzerland's lack of natural resources and unfavourable conditions for farming limited the possibilities for economic development and growth. It was not until the emergence of international manufacturing and services activities, including trade, finance, investment and tourism, that Switzerland's economy began to expand rapidly.

Modern day Switzerland is among the richest OECD countries. Its per capita income, Sw F 45,400 in 1989, outstrips those of the United States and Canada by more than one quarter. Exports and imports of merchandise are each in the order of 30 per cent of GDP. Exports of services of almost Sw F 15 billion (1989) compare with imports of over Sw F 13 billion.

Swiss industry, while covering a wide range of manufacturing sectors, is highly specialized. Intra-industry trade thus plays an important part, for example in machine tools, where Switzerland is the world's third largest exporter and imports account for two-thirds of domestic sales. In addition, as the domestic market is small, many typical Swiss industries are highly outward-oriented; for example, the home market for watches accounts for less than one-tenth of total sales in the sector.

The EC is by far Switzerland's largest trade and investment partner. Preferential trade with the EC, under the free trade agreement of 1972, accounts for over 70 per cent of Switzerland's merchandise imports and nearly 60 per cent of its exports. Germany is the largest market and supplier. Half of Switzerland's outward investments between 1986 and 1989 were destined for the Community.

Many economic indicators, including Switzerland's continuing low unemployment levels, give a general impression of economic strength. However, there are qualifications:

- Growth in GDP has been lower than in other European OECD countries or the OECD area as a whole: on average over the 1980s, 2 per cent as against 2.4 per cent in the European OECD countries and 3 per cent in the OECD area as a whole.

- Inflation has increased to historically high levels (over 5 per cent in 1990). Monetary expansion has, to some extent, been supported by indexation agreements, particularly in the housing sector.
Swiss industry appears to have lost ground in advanced product areas. The trade surplus in high technology sectors has tended to shrink, at least since the early 1960s.

Many domestically oriented branches - agriculture, construction and elements of the public sector (telecommunications, railways, electricity) - appear to be less efficient than industries producing tradables.

Income comparisons at current exchange rates thus tend to overrate living standards in Switzerland. In terms of GDP per head at purchasing power parities, the country ranked behind the United States and Canada in 1989.

Institutional Framework

The Swiss Constitution provides for a large measure of direct popular democracy, in particular through referenda. Any amendment to the Constitution is subject to an obligatory referendum, which must be accepted by the majority of voters in the country as a whole and by the majority of the cantons. In addition, referenda may be requested on any major political issues.

The frequency of referenda may explain the fact that voting levels are often rather low. This tends to operate in favour of powerful interest groups, for whom it may be easier to mobilize support. For example, less than one-third of eligible voters took part in a recent referendum on certain reforms of indirect taxation, including the introduction of a value added tax. The proposal was rejected, although all major political parties had recommended its adoption.

The Federal Supreme Court has in principle no competence in the field of laws which can be submitted to referendum. However, it is competent to determine whether specific laws are consistent with Switzerland's international obligations. All such binding obligations, including the GATT, form an integral part of Switzerland's legal system.

The seven-member Federal Council - Switzerland's Cabinet - is in charge of the country's external relations. It may implement or change trade policy measures, such as tariffs or quantitative restrictions, without prior parliamentary approval. However, all such measures must be reported to Parliament, which may amend or revoke them within six months.

The possibility of a referendum, and the costs and delays involved, operate as strong motives for consensus decision-making. Accordingly, new federal legislation normally results from intensive consultations, often informal, with the cantons and the private sector. Such consultations are also significant elements in the administration of policy. There are nearly forty committees and consultative bodies within the ambit of the Federal Department of the Public Economy. Half of these are concerned with agricultural policy issues; consumers are not represented in all
bodies. There is currently no independent policy review mechanism or agency.

The guiding principle of consultation and compromise has been a considerable asset to Switzerland in terms of institutional and political stability. However, it may also prove an obstacle to innovative or speedy Governmental decisions and legislation.

Trade Policy Features and Trends

Recent evolution

Switzerland is confronted with a rapidly changing European and international environment. The existence of new external challenges and the need for the Swiss economy at least to keep pace with other advanced industrial countries is widely recognized. In principle, structural adjustment appears accepted as the prerequisite for continued economic well-being.

However, within a consensus-based system, more fundamental reforms necessarily prove difficult. One rationale for Switzerland's participation in a European Economic Area, or in similar forms of closer international cooperation, apparently lies in their potential for overcoming long-entrenched internal rigidities. This could include streamlining legislative procedures and, perhaps more fundamentally, reconsidering traditional patterns of decision-making and of approaching economic problems.

Reform requirements in the context of a European Economic Area would involve issues such as standardization, public procurement, competition policy, transport (including transit) and free circulation of persons. Reforms in many of these areas may be viewed as complementary to the Swiss Government's commitment in the Uruguay Round, aimed at rejuvenating the multilateral trading system.

Type and incidence of trade-policy instruments

Switzerland's basic policy approaches to industry and agriculture are fundamentally different. In the sphere of industry, policy makers have traditionally refrained from sector-specific intervention. Accordingly, the trade régime for industrial products is generally open. There are few non-tariff barriers and tariffs are normally low. Free-trade area provisions and, with some exceptions, the GSP scheme cover all industrial items. Agricultural policy, in contrast, is based on a tight network of regulations. Its objectives, laid down in the Federal Constitution and the Law on Agriculture of 1951, are ensuring adequate food supplies at favourable prices, protection of rural family farms, regional and income policy goals, and preservation of the environment and the landscape.

A broad variety of measures - tariffs, subsidies, quantitative restrictions, variable levies, price and tariff supplements, requirements to purchase domestic production in proportion to imports - is applied on a
wide range of agricultural products, from milk and wheat to sugar and eggs, from vegetables to wine and fresh flowers. The actual policy mix may differ considerably between the individual areas. However, the main thrust is on quantitative restrictions and on non-tariff charges as against tariffs. Many measures vary in restrictiveness, in some cases according to season, in order to ensure priority outlets for domestic suppliers. Reflecting the impact of agricultural policy on trade flows, alcoholic beverages and fruit and nuts are the only food products among Switzerland's leading 40 import items.

The average self-sufficiency ratio for major agricultural products has risen to 65 per cent, some 10 percentage points above its level in the mid 1960s. Direct production controls, for example the milk quota system since 1977, have contributed to preventing further increases.

Recourse to rigid administrative instruments has tended to perpetuate existing production patterns at the expense of more efficient producers. For example, as quota shares for milk production are allocated in proportion to farm size, any expansion of production is in principle contingent on acquiring or renting additional land. This has operated against realising efficiency gains in the dairy sector and contributed to driving up land prices and thus the costs of farming.

Shielding the agricultural sector from competition and from incentives to rationalise has placed high burdens on Swiss consumers, who have to bear some four-fifths of total policy costs. Consumers - particularly those living near international borders - have, to a limited but increasing extent, responded by "policy evasion" through buying abroad.

In the sphere of industry, the Swiss authorities made relatively little recourse to trade restrictions. Switzerland is the only industrial country to apply exclusively specific duties on imports, in general by weight. Almost all tariffs are bound (except for certain processed agricultural products and the fiscal duties on fuels and motor vehicles). The vast majority of imports enter duty free under Switzerland's free trade agreements with the EC and the EFTA countries and under its GSP scheme.

In 1988, the simple average ad valorem tariff equivalent was less than 3 per cent. However, this average is likely to be downward biased since specific duties operate against relatively low priced and weighty items within the individual tariff categories; duty-paid import prices would thus tend to be higher on average than under ad valorem tariffs. With a standard deviation of over 7 percentage points in 1988, the spread of the ad valorem equivalents is considerable, reflecting tariff peaks on a variety of items, for example food products and textiles.

Most current import measures - quotas, controls and licensing requirements - are maintained for reasons of national security, health and environmental protection. For example, Switzerland has never resorted to restrictions under the Multi-Fibre Arrangement. Surveillance measures and
price controls have been confined to some textiles and clothing imports from eastern and central Europe. They may, however, have influenced marketing behaviour across a wider product range. In addition, Swiss textile exports enjoy indirect benefits under the free trade agreement with the European Communities, which ensures free access to their main export market whereas competing supplies from developing countries are subject to quotas and other measures.

Export restraints mainly serve to implement commitments under international agreements, for example with respect to narcotics, arms or endangered species of flora and fauna, or to ensure access to restricted technologies. In addition, Switzerland applies export restrictions and taxes on certain non-ferrous metals and on metal scrap and wastes in order to provide inexpensive supplies for domestic processors.

There are no trade restrictions on cultural policy grounds relating to exports of antiques and the like. This may have contributed to establishing the country’s rôle as a trading place for works of art and other collector’s pieces.

Overall, public subsidies to Swiss industry, whether by the Confederation or the cantons, are not likely to impinge substantially on trade. Federal subsidies to industry, together with complementary measures by the cantons, are less than 5 per cent of payments for agricultural support. Emphasis is placed on regional, as against sectoral support and on promoting structural change. However, several research initiatives have been launched by the Confederation in technology areas deemed to be of "strategic" importance, for example microelectronics, biotechnology and computer integrated manufacturing.

During the 1980s, the cantons have extended subsidization, particularly in the form of investment aids, although information on these activities is fragmentary. The legal possibilities for the cantons for granting subsidies appear wider than, for example, those of the EC member States and their regions under the Treaty of Rome.

Public purchasing by the Confederation is generally by selective tendering. The overall import share in public procurement at the federal level, including military purchases, was in the order of 10 per cent in 1990. Although there are no buy-national obligations under Swiss federal law, technical innovations by Swiss firms may be encouraged. Suppliers of locomotives and telecommunications equipment appear to have benefited.

At the cantonal level, discriminatory procurement practices (including domicile requirements, membership of local professional associations and so forth) are reported to be widespread and frequent. The Swiss Cartel Commission has found such practices in almost half of the cantons.

Switzerland and Swiss industries play an active part in common European bodies for standardisation, testing and type approval. Over
80 per cent of the Swiss standards adopted between 1986 and 1990 were based on international, European, or foreign national standards.

Swiss legislation in general aims at ensuring very high levels of consumer protection, for example through tough veterinary and phytosanitary standards and strict policing. However, there is evidence that Switzerland has opted for less trade restrictive approaches in certain cases. For example, while the use of hormonal growth promoters in domestic meat production is banned, Switzerland allows imports from countries without similar legislation. However, all products are required to be free of residues.

Nevertheless, a number of Swiss national standards and regulations appear to impede market access, including direct imports by consumers. The range of affected products includes motor cars and special vehicles for agriculture, construction and the like; pesticides; fertilizers; sanitary ware; kitchen equipment; food; and electric machinery. In many of these areas, more stringent standards and approval procedures than in neighbouring countries have been defined for reasons of health and consumer protection. Industrial policy considerations may also have played a role. In telecommunications, for example, Switzerland ranks among the OECD countries with the highest costs of type approval for terminal equipment. Swiss specific standards on some consumer goods, such as kitchen equipment, coincide with considerably higher prices than in neighbouring countries.

Relatively high barriers to entry into wholesale and retail trade - through building and planning regulations, rules on shop opening hours, "public need" requirements (restaurants) and so forth - have also contributed to shielding established traders from newcomers.

Such restrictions have facilitated the operation of cartels and other collusive practices across wide sectors of the economy. Cartels are deemed acceptable under Swiss law as long as their harmful effects do not prevail. The Cartel Act even provides a legal framework for setting up and operating such arrangements. The Swiss Cartel Commission has explicitly tolerated several price cartels, for example on books and pharmaceuticals, for their perceived positive impact on countrywide supplies and, with respect to pharmaceuticals, public health and technical progress. The Cartel Commission apparently held the view that monopoly rents would ultimately lead to socially more desirable results than unimpeded competition.

In developed economies such as Switzerland, the effects of any regulated or cartelized market tend to spill into related areas. For example, the Swiss Farmers Union has indicated higher prices for farm machinery and inputs, compared to Germany, by between one third for machinery and one half for fertilizers and buildings. Tight regulations and cartel practices, for example on fertilizers and building materials (cement), may have added to the price impact of higher wages in Switzerland.
In addition to cartel arrangements which often tend to distort the vertical structure of production and markets, Switzerland's single-phase turnover tax operates in favour of vertically integrated conglomerates and to the detriment of independent economic units.

Shareholding limitations by large Swiss companies also appear to affect competition for ownership control. Many companies limit the possibility for share transfers and restrict shareholders' voting rights, thus shielding the management from internal supervision and new challenges on capital markets. Such practices are not ruled out under Swiss law. Lack of ownership influence may have compounded the adverse impact of tight product regulations, cartels and cartel-like arrangements on economic resilience.

These factors, taken together, tend to act against Switzerland's basic trade policy approach of establishing transparent rules for industrial products and allowing market mechanisms generate impulses for growth and structural change.

Temporary measures

Recourse by Switzerland to trade remedy provisions under the GATT and/or under national law has been rare. Only four safeguard actions have been taken under Article XIX, all concerning agricultural products. No industrial products have been subject to safeguard actions or anti-dumping and countervailing measures. There is no evidence of Switzerland's having resorted to any informal substitutes such as voluntary restraints. This policy stance has been maintained despite pressure from major trading partners. However, collusive arrangements by industries and wholesalers - complemented by the protective effect of Swiss-specific standards - may have proved instrumental in defusing sudden increases in competitive pressures. The existence of cartels and cartel-like practices throughout the economy would at least suggest this possibility.

New initiatives

In many trade-related areas, in particular standardisation, Switzerland continues to align its domestic regulations with those of the EC. This process may contribute to exposing hitherto protected markets for tradables to more competition and, thus, to eroding the basis for certain restrictive private arrangements. New laws, currently in the legislative process, are due to replace the regulatory system on food products, dating back to 1905, and the Act on Telegraph and Telephone Communication of 1922. Export taxes on non-ferrous metal scrap and residues are to be lifted by 1 January 1993 with respect to EC/EFTA destinations; complete abolition is under consideration.

At the time of writing, no final accord had been reached on a Treaty establishing a European Economic Area (EEA) with the EC and other EFTA countries. Open issues included the transit of heavy trucks through Switzerland and, in particular, the present weight limit of 28 tonnes. Any Treaty would be subject to referendum by the people and the cantons.
In the standards sphere, most of the "EC acquis" would become effective in the EEA area as from 1 January 1993. Exceptions include motor vehicles for which 1 January 1995 is the envisaged target date.

Switzerland would be required to adopt more stringent competition rules in the EEA context. As a result, certain long-entrenched cartel practices, officially tolerated under the Swiss Cartel Act, might no longer prove sustainable. Also, access to the labour market would be eased progressively.

Agriculture would in principle be excluded from the EEA. Rather, a so-called "evolutionary clause" aims at achieving a higher degree of liberalisation, on the basis of existing policies, in the EC/EFTA area. In addition, EFTA countries are committed to reduce their tariffs on a range of products of particular importance to the less developed regions of the EC.

Recent initiatives by the Federal Department of the Public Economy aim at establishing new ways and means of administering agricultural policy. Measures currently under consideration include non-production related support payments and incentives for specified environmental contributions. Decisions by the EC are expected to have a determining influence on the extent and direction of Switzerland's future agricultural reforms.

Trade Policies and Foreign Trading Partners

Switzerland, as a relatively small trading country, has traditionally sought to maintain and expand a rule-based international trading system. It has placed emphasis on international mechanisms, as against unilateral actions, as the appropriate means of pursuing national economic objectives and settling disputes.

Commensurate with its long history of neutrality and independence, the country has not, with one exception (Iraq/Kuwait), participated in international trade embargoes. Also, at least in the industrial sphere, the Swiss authorities have refused to yield to external and internal policy pressures aimed at finding "pragmatic solutions" outside the GATT. Accordingly, no trade-restrictive measures have been taken to support industries suffering from an unfavourable economic environment.

Switzerland has contributed actively to many negotiating areas of the Uruguay Round. Its commitment to the Round mirrors the export orientation of many industries and their wish for internationally agreed remedies to problems which inhibit trade expansion. A successful conclusion of the Round is also viewed as a complement and a counterbalance to trade initiatives in Europe.

Nevertheless, Switzerland's international trade is highly compartmentalised. More than four-fifths of its imports originate from preferential sources, the EC/EFTA area and GSP beneficiaries. Agricultural trade has in principle been kept outside international
agreements, including the possible EEA Treaty. Instead, highly complicated trade mechanisms have been created for processed agricultural products. Switzerland's restrictive agricultural policies apply to many areas of importance to developing countries and to the reforming economies of central and eastern Europe.

Switzerland is, however, in the process of reconsidering its traditional policy approaches. It seeks to define its future rôle with relation to European integration and reforms in eastern Europe. The fundamental policy changes which could result might go hand in hand with, and assist, Switzerland's commitment to multilateral trade liberalization.

In order to bear fruit, any reforms would need to expose hitherto regulated and cartelized markets to more competition. This would mean expanding the basic principles of Switzerland's trade policy in the industrial sector to other segments of the economy and to other domains of policy-making. Ensuring transparency and open markets across the board, within a clearly defined legal framework, may prove the acid test for any meaningful reform package geared at maintaining Switzerland's competitive edge in a changing European and international environment.
TRADE POLICIES AND PRACTICES

Objectives of Switzerland's trade policy

Switzerland is a country that covers approximately 42,000 sq. km. and has 6.7 million inhabitants; it is a land-locked country situated at the heart of Europe and lacks natural resources, but since the beginning of the 19th century it has built up a solid industrial base that today situates it among the fifteen major trading powers in the world. It has the highest population density in Europe after the Netherlands.

Due to the relatively small size of its domestic market, Switzerland very quickly turned to exports as an indispensable way of financing imports to supply the country and compensate for the lack of raw materials.

Basing itself on its permanent neutrality, Switzerland has always sought to establish close economic links with the greatest possible number of States participating in international trade so as to avoid depending on a limited number of them. The objectives of Switzerland's trade policy are access to export markets, secure guarantees of supplies and strengthening of multilateral economic law to the extent that this also allows less powerful trading partners to benefit from framework conditions that are foreseeable, contractual and therefore secure for the activities of their economic operators. The trade policy is also a way of preserving Switzerland's independence vis-à-vis other countries and promoting general well-being (Article 2 of the Federal Constitution). The policy is based on the following principles:

- as a corollary to the fundamental principle of freedom of trade and industry, enshrined in the Federal Constitution (Article 31), trade policy is open to the outside and is based on market economy principles;

- trade policy is also guided by the principle of subsidiarity under which the State intervenes only if the economic operator is no longer able to overcome alone the trade barriers resulting from measures taken by the authorities concerned in export markets. In order to foster international harmonization, national legislation intervenes in principle only in cases of necessity and as a complement to international harmonization. The principle of the primacy of public international law over national law is recognized.

Free trade and fair trade constitute the principal means of progressively achieving the objectives set.
In the light of experience gained in the most competitive markets, the Swiss authorities have for a long time been aware of the importance for trade policy of sectors such as services (60 per cent of jobs in Switzerland), intellectual property (the highest number of patents per capita in the world) and investment. There is an increasingly close link between the design of a product (intellectual property), its production (investment, services), marketing, use and maintenance (services). It therefore follows that access to markets can only be guaranteed if more global trade policy considerations are reflected in framework conditions contractually formulated at the multilateral level.

Switzerland acceded to the General Agreement on Tariffs and Trade on 1 April 1966, with a reservation concerning the application of a number of quantitative restrictions aimed at allowing it to achieve its agricultural policy objectives. These restrictions concern approximately 20 per cent of agricultural imports which, themselves, only represented 8.5 per cent of Switzerland's total imports in 1989, and 8.4 per cent in 1990. The orientation of its trade policy has allowed Switzerland to contribute to the progressive attainment of GATT's objectives.

The gradual elimination of tariffs, the first step in multilateral trade policy, is referred to in the Federal Constitution (Article 29).

Switzerland is almost the only country in the world to apply to all goods a tax system based on specific duties. These duties do not depend on the value of the goods but only on the quantity imported. They have the advantage of guaranteeing a fixed levy for the same quantity imported, independently of the price of the goods. Moreover, specific duties are better adapted to the requirements of the political situation than ad valorem duties since the duty paid does not help to make goods that are already expensive even more costly. The system of specific duties is also easy to apply and helps to speed up customs clearance. On the other hand, because specific duties are not adjusted to increases in the price of goods imported, they lead to a reduction of the ad valorem incidence and loss of revenue for the State in real terms.

The second aspect of multilateral trade policy - the abolition of non-tariff measures - is also one of the objectives of Swiss trade policy. Switzerland now has virtually no quantitative restrictions on industrial goods falling within Chapters 25 to 97 of the Harmonized System (HS).

Import regulations in the industrial sector still exist for reasons such as:

- national security: system of compulsory stocks (fertilizers, antibiotics, fuel, lubricating oils, detergents); military equipment; civil defence equipment; atomic installations; explosives;

- public health: radioactive substances; narcotics;

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The third aspect of trade policy, namely, reducing the trade distortions resulting from national policies, arouses conflicts of interest and is therefore more difficult. It is nevertheless indispensable for the strengthening of multilateral economic law, and for the first time situates in an international context, areas that have until now traditionally been considered to be primarily the concern of domestic markets, for example, agriculture, the construction industry and some services sectors. In Switzerland, since the beginning of the Uruguay Round efforts have been under way to modify agricultural policy so that production is increasingly oriented by market forces.

Swiss agricultural policy has both trade and non-trade objectives. This multifunctional aspect of agriculture is becoming increasingly important. It leads to conflicts of interest that make any trade negotiations much more complex.

The principal objectives of Swiss agricultural policy, which are defined in the Federal Constitution (Article 31 bis) and in the 1951 Agriculture Act, are the maintenance of a vigorous farming population and a productive agricultural system serving the country's food needs but taking into account the other sectors of the national economy (see also the Sixth Report on the situation of Swiss agriculture and the Confederation's agricultural policy, Doc./87.074, Berne 1984; the Seventh Report is currently being prepared). The policy is also designed to:

- ensure supplies of wholesome foodstuffs of excellent quality and at accessible prices. Domestic agriculture contributes to the achievement of this goal by virtue of its productivity, having regard to economic conditions and respect for the environment. Imports also play a part by increasing the range of products available and helping to maintain reasonable prices;

- guarantee food supplies during crisis periods and prepare for this eventuality should imports be interrupted or suspended. This arrangement ensuring adequate supplies of food lends credibility to the policy of neutrality and also makes it possible to make good any shortages that may occur in peace-time. Agriculture should be in a position to increase or adjust the volume of output so as to be able, following a transition period during which stocks are used up, to ensure essential supplies of foodstuffs;

- contribute to the protection of the soil, the countryside and the environment. In the context of an ecological system whose laws cannot be violated without serious long-term consequences,
agriculture should be responsible for maintaining the fertility of the soil and protecting the countryside and the environment;

- maintain a "peasant" agriculture and contribute towards decentralized occupation of the territory. The typical farm consists of an independent farmer who performs his work with the assistance of members of his family; the earth constitutes the basis of production, the undertaking, and the place of work and residence, and provides the family with its income. This family-type peasant farm helps to keep marginal areas populated and assures the cohesion of villages, particularly in mountain and hilly regions (which constitute two-thirds of the national territory);

- achieve specific goals, such as the assurance of an equitable income, rational production at reasonable cost and the adaptation of output to market conditions.

The tension between the overall objectives of agricultural policy and the means available for their achievement on the one hand, and this policy's impact on the trade environment on the other hand, have led to a review of the issue in Switzerland. This will result in reform of agricultural policy instruments but will not jeopardize the multifunctional objectives.

The Swiss authorities attach increasing importance to environmental protection. Being aware that the problem of relations between trade policies and environmental policies will become increasingly important, Switzerland, together with its EFTA partners, has proposed that GATT should take up this new trade policy challenge.

The objective of EFTA countries in this field is to ensure that the framework of GATT regulations functions, adapted as necessary, so as to provide those responsible for elaborating trade and environmental policies with clear indications. Appropriate regulations and disciplines must be developed before the GATT dispute settlement mechanism is faced with problems with which it cannot deal for lack of an up-dated interpretation of the General Agreement.

Because of the importance of its trade links with European countries, Switzerland has developed a network of agreements with its partners in the European free trade system (EC and EFTA countries) in addition to its activity within GATT. The Stockholm Convention establishing the European Free Trade Association in 1960, the Free Trade Agreement with the EC in 1972 and the European Economic Area (currently being negotiated) are its main components. In addition, Switzerland participates in negotiations on free-trade agreements between the EFTA countries and a number of third countries.

The strengthening of economic links with its neighbours has never led Switzerland to lose sight of the importance of its remaining open to world markets. It therefore endeavours to ensure that opportunities for concluding agreements with other partners are not jeopardized. For
example, on 31 May 1991 Switzerland signed an agreement with Mexico with a view to strengthening economic links.

Switzerland has adopted a series of measures in favour of developing countries and encourages their full integration in the multilateral trading system with equal rights and obligations as the guiding principle. As a result of the low level of import duties, Switzerland is the fifth largest world importer of tropical products. It is the second largest donor to the GATT/UNCTAD International Trade Centre. Switzerland has not signed any bilateral agreement restricting imports of textiles or clothing, even though it has signed the Multifibre Arrangement. Under its Generalized System of Preferences (GSP) scheme which constitutes a means of development and not a trade policy instrument, 128 countries currently benefit from privileged access to the Swiss market. Switzerland also participates in efforts to stabilize prices within the framework of commodity agreements and works to improve marketing strategy for products from developing countries.

The least-developed countries (LLDC), which currently number forty-one, benefit from additional advantages. Under the GSP scheme, their access to the Swiss market is facilitated with zero duties on approximately forty agricultural tariff headings in Chapters 1-24 HS and all tariff headings in Chapters 25-97 HS, on which other developing countries enjoy only a preferential tariff reduction of 50 per cent (textiles and clothing, footwear, umbrellas, aluminium, etc.).

Description of the import and export system

General

In a market economy based on freedom of trade and industry, the import and export of goods are in principle free and left to the initiative of the economic operators. In conformity with Articles XX and XXI of the General Agreement, the State intervenes only for reasons of public order (security, health, environmental protection). The import of agricultural products falls within the framework of the agricultural policy objectives and there is a system of import restrictions affecting approximately 20 per cent of agricultural imports.

Import system

Switzerland is a low tariff country (the average tariff on manufactures is 2.8 per cent) and 99 per cent of the tariff lines in Chapters 25-97 HS are bound in GATT (54 per cent of the tariff lines in Chapters 1-24 HS). Switzerland does not in principle have any quantitative restrictions on the import of manufactured goods.

The Constitution sets out the basic principles of Swiss policy on tariffs. Article 29, already mentioned above, reads as follows:
"Article 29

The following principles shall govern the collection of customs duties:

1. Import duties:
   (a) materials required for the country’s industry and agriculture shall be subject to the lowest possible duties;
   (b) the same shall apply to essential goods;
   (c) luxury goods shall be subject to the highest duties.

   Unless there are compelling reasons to the contrary, these principles shall also be applied when concluding trade agreements with foreign States.

2. Export duties shall be as moderate as possible.

3. The customs legislation shall contain suitable provisions to facilitate trade across frontiers and on markets.

   Notwithstanding the foregoing provisions, the Confederation may, in special circumstances, resort temporarily to exceptional measures.*

Import licences do not play a major rôle in Swiss trade policy. With the exception of some special cases in the industrial area, they are mainly used in trade in agricultural products.

As regards the products in Chapters 1-24 HS for which an import licence is required, Switzerland applies the following system:

In certain cases, licences are granted automatically (poultry, cheese, coffee, tea, sugar, etc.). In other cases, the issue of licences is subject to quantitative restriction (animals for slaughter, cereals, fodder, cut flowers, etc.). A system of imports in proportion to the taking over of domestic products ("prise en charge" system) applies to certain products (sheep, eggs in shell, poultry meat, etc.); under this system, the licences are granted without quantitative limitation but importers are obliged to take over a certain quantity of like domestic products in proportion to their imports. Most fresh fruit and vegetables are subject to the "three-phase" system under which, according to the time of year, licences are either granted automatically, or subject to certain conditions (quantitative restrictions or taking over of a quantity of domestic products, or even import prohibitions).

*Unofficial translation

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In conformity with the letter and spirit of the multilateral trading system, Switzerland has never concluded any voluntary restraint or market organization agreements, whether at government level or between domestic industries and industries in exporting countries. It has never made use of its right under the Multifibre Arrangement, to conclude bilateral agreements governing access to its market for textiles and clothing.

Technical requirements in the health and phytosanitary fields are aimed at alignment with the harmonization efforts taking place at the global and regional levels. Health considerations are reflected in the Federal laws on foodstuffs, measures against epizootics and protection of animals. The constraints they impose on economic operators are based on the principle of proportionality and are aimed at protecting the health of consumers and animals and preventing consumers from being misled as to the true nature of the product on sale. Import restrictions are aimed at eliminating threats to the health of people and animals and preventing the spread of epizootics.

In the phytosanitary area, of plant health, the principles contained in the FAO instruments on plant protection apply.

**Export system**

Freedom to export is only subject to restrictions based on national security, especially the guarantee of basic supplies. The Federal Law of 25 June 1982 on External Economic Measures and the Federal Law of 8 October 1982 on the Economic Supply of the Country constitute the legal bases permitting limitation of exports during exceptionally critical periods and subject to certain conditions.

Measures must be in accordance with the principles of proportionality and the subsidiarity of State intervention. The scarcity of a given product must not be of a temporary nature and must affect the country as a whole. Scarcity may be due to war, political disturbances or may be caused by unsatisfactory functioning of the world market for the product concerned. To date, no measure has been taken under this provision.

In addition, the export of products deemed sensitive from the aspect of national security is subject to export controls.

So as to guarantee basic supplies to certain industrial sectors in times of crisis, Switzerland has a system of customs duties on the export of non-ferrous metal scrap and a system of quantitative restrictions for the export of ferrous scrap.

**Trade policy formulation and review**

The broad outlines of trade policy are laid down in the Constitution. Since it is absolutely necessary for Switzerland to export part of its production of goods and services, Swiss trade policy lays down clear and foreseeable framework conditions for exporters and importers. Market opening, relatively low tariff levels, the search for harmonization at the
world or regional level, absence of subsidies in the industrial and service fields - all these are illustrative of Swiss trade policy.

Adaptation of trade policy to the requirements of new challenges is based essentially on four sources: action by Parliament, economic operators, cantons and international forums.

The Parliament also has the right to initiate reform in the trade sector. The Economic Commission of the National Council and the External Economic Affairs Commission of the Council of States play a major rôle. In addition, each member of Parliament has the right to make proposals. Review of the annual report on external economic policy and of the Federal Council's annual report inter alia give Parliament a regular and systematic opportunity to review Switzerland's trade policy.

The corollary to the principle of subsidiarity, under which the State only intervenes to the extent that the sectors directly involved cannot themselves act, is an internal dialogue between economic circles and the Federal Administration, which is responsible for implementing the trade policy decided upon by the political organs and has the right to propose changes. A standing Consultative Commission under the chairmanship of the Director of the Federal Office for External Economic Affairs and composed of representatives of trade, industry, services, agriculture, trade unions and other Federal offices directly concerned with external economic policy (agriculture, customs, finance, technical co-operation for development) formulates the guidelines for external economic policy.

The Federal Commission of Customs Experts is an advisory body which must be consulted for any amendment of customs policy. It is composed of interested professional circles, consumers, development aid bodies and the administrative services concerned.

The Consultative Commission for Implementation of the Agriculture Act is a standing extra-parliamentary body of fifteen members representing the principal economic sectors and consumers. Ordinances and measures of general scope necessary for implementation of the Agriculture Act are submitted to this Commission for its opinion before being adopted.

The Consultative Commission for International Development Co-operation and Humanitarian Aid decides upon the objectives and order of priority of measures to be taken in this area. It also reviews issues affecting Switzerland's external economic policy in joint meetings with the Consultative Commission for Trade Policy.

The Conference of Cantonal Directors of the Public Economy, which brings together all the heads of the public economy in the cantons (Ministers) is the main forum for dialogue between the Head of the Federal Department of the Public Economy and the cantons on trade policy aspects that concern the sub-Federal entities (inter alia public procurement, standards, subsidies). The Conference of Cantonal Directors of Agriculture plays the same rôle for aspects of international trade in the agricultural area that are of interest to the cantons.

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Above all, the trade policy parameters defined in international forums shape Switzerland's trade policy. The GATT multilateral trading system and the contractual relations established since 1960 in the framework of the European Free Trade System (EFTA, Free Trade Agreement with the EC and proposed treaty on a European Economic Area, for example) determine the broad outlines of Swiss trade policy.

**Wider economic and developmental needs, policies and objectives**

In the past few years, Switzerland's economic performance has been satisfactory overall, although inflationary pressures have been building-up since 1989. Production and employment have continued to progress and the budget of public administrations, as well as the current external balance, have remained substantially in surplus. After seven consecutive years of sustained economic expansion, all the indicators available point to a fairly pronounced easing of economic activity in 1991. Fairly slow growth for the year as a whole should return to the level of its medium-term potential by 1993. After the boom years 1989 and 1990, this slowing of economic activity is easing pressures on supply that were attributable to record utilization of industrial capacity and the progressive mopping up of the labour market, particularly as regards skilled labour. The rise in unemployment, quite pronounced at the beginning of the year, has eased off and the unemployment rate continues at close to 1 per cent. What is more disquieting is that prices rose by almost 6 per cent in 1990.

Speedier inflation is largely the consequence of an easing of monetary policy following the stock market crash of October 1987. Nevertheless, the relaxation of monetary policy was also the unforeseen result of changes made in 1987 and 1988 to Swiss National Bank regulations which have deprived it, at least for the moment, of reliable indicators of monetary conditions. As a result, the Swiss franc has weakened and import prices have risen more rapidly. Monetary policy orientation was modified in 1989, but given the time lag between monetary developments and price trends the deflationary effects of monetary tightening are not yet apparent.

Other important problems, which should be seen more in a medium-term perspective, remain to be solved: in particular deregulation of markets which are still sometimes hampered by concerted practices; and reform of agricultural policy without bringing into question its multifunctional objectives. In addition, distortions introduced by the tax system into the utilization of resources must be eliminated for reasons of efficiency and to prevent the emergence of competitive disadvantages. The need to replace the Confederation's tax legislation when the relevant constitutional provisions expire at the end of 1994, could be the occasion to carry out these reforms, even though a proposed new Federal financial régime was rejected by the people and the cantons on 2 June 1991.

Swiss public opinion is increasingly sensitive to environmental problems. As a result, there is a more pronounced leaning towards the
quality aspects of growth. The Swiss economy is laying ever greater emphasis on specialities with high added value and whose impact on the environment is positive or neutral. Thus, special emphasis is laid on services linked to industrial production systems (system know-how or system follow-up). This increased specialization is the result of Switzerland's participation in the international division of labour.