

The State of Relations between the EU and the Principality of Liechtenstein

Statement at the Meeting with the EFTA Working Party of the EU Council

20 September 2016

H.E. Ms Sabine Monauni, Ambassador-designate of Liechtenstein to the EU

Mr. Chairman,

distinguished members of the EFTA Working Party,

ladies and gentlemen,

(1) Liechtenstein/EU relations (generally)

- It is a pleasure to be with you today in my new capacity as Liechtenstein's Ambassador to the EU. I would like to thank you for this opportunity to make a presentation on the state of relations between the EU and the Principality of Liechtenstein. We very much appreciate the dialogue with the EFTA Working Party, and I will try to address the most important developments in EU-Liechtenstein relations in recent years as we see them.
- Two years ago, the EU Council concluded that relations with non-EU Western European Countries were "excellent". Looking back at the more recent past, and speaking specifically about EU relations with Liechtenstein, one could conclude that relations today are even better. During this time, we have made significant progress, have successfully overcome a number of challenges and have concluded important agreements – I will revert to some of them shortly.
- Our cooperation with the EU is viewed highly favourably by those for whom it was designed in the first place: our population. This is particularly the case for Liechtenstein's membership in the EEA. Surveys taken last

year, on the occasion of the 20th anniversary of our membership in the EEA, showed that 85% of those surveyed had a positive view of the EEA. You might find this to be a delightful number, especially during these turbulent times for the European project. Satisfaction with our economic integration model within Europe is even higher among our businesses.

- Access to the Internal Market is essential for Liechtenstein being an attractive business location. The European Union continues to be Liechtenstein's largest trading partner. Around 60% of all direct exports of goods are exported to the EU; almost 80% of Liechtenstein's imports come from the EU. EEA membership has led to a diversification and internationalisation of Liechtenstein's economy, in particular in the services sector, and contributed significantly to our economic stability. At the same time, it has strengthened Liechtenstein's role as a sovereign State in relevant foreign policy matters. The Government therefore considers EEA membership overall as a success.
- The Liechtenstein Government remains fully committed to continuing and deepening this cooperation, in particular through full implementation of existing agreements, such as the EEA, Schengen and Dublin. The Government is also committed to strengthening our ties in other areas, including tax cooperation as well as cooperation in multilateral fora such as the Council of Europe, the OSCE, the United Nations and the International Criminal Court.

(2) The Internal Market and EEA related issues (generally)

- Let me begin with the **EEA Agreement**. As repeatedly acknowledged by the EEA Council, the EEA Agreement has been playing a key role in advancing economic relations and internal market integration between the EU and the EEA EFTA States for more than 20 years. The Agreement has been robust and capable of adapting to changes in EU treaties and to EU enlargements. I have already mentioned the positive assessment of the EEA Agreement in Liechtenstein.
- Implementation of the EEA Agreement, generally speaking, is smooth in Liechtenstein. We continue to absorb EU laws quickly and precisely, and the Government is committed to achieving high implementation rates, despite some fluctuations in the most recent past. This is also evidenced

by the low number of infringement proceedings against Liechtenstein. We are also doing our utmost to contribute to the further reduction of the backlog in the incorporation of new EU legislation into the EEA, especially but not only in the area of financial services. Despite the small size of our administration, I believe it is fair to say that Liechtenstein has been able to establish a good track record in this respect. We also continue to be open to sharing our experience in managing the implementation of the EEA Agreement with others.

- Hopefully still this week, the EEA Joint Committee will decide on the incorporation of a first package of legislation that will allow the EEA EFTA States to become integrated into the new system of **financial supervisory authorities**. This marks a milestone in what has been a very difficult and work-intensive process, both at the EEA level and at the domestic level.
- It has been very difficult to explain to our financial services actors why Liechtenstein's participation in this system was delayed. Thankfully, however, the major hurdles have been overcome. We thus look forward to the full implementation of the restructured EU regulatory framework on financial market supervision. In this respect, we would like to highlight the high importance of promptly incorporating and applying the other outstanding legislation in the field of financial services, in order to ensure a level playing field throughout the EEA in this important sector.
- Another breakthrough achieved in the recent past was the conclusion of the Agreement on an **EEA Financial Mechanism for 2014-2021**. After long and at times very difficult negotiations, we agreed in July 2015 to further increase the contribution of the EEA EFTA States to the reduction of economic and social disparities in the EEA. With a total commitment of more than €1.5 billion over a seven-year period, the new EEA Grants represent our most ambitious effort so far. In terms of annual contributions, this represents an increase of over 11% compared to the previous mechanism. Following approval of the Agreement by a very clear majority of Parliament in June, Liechtenstein deposited its ratification instrument in July. The debate in Parliament has shown that our solidarity is understood as a corollary to our access to the common market. We are confident that the new EEA Financial Mechanism will make a significant contribution towards reducing social and economic disparities in the EEA

and to further strengthening bilateral relations between the donor and beneficiary states. I understand that good progress is being made in the MoU negotiations with the 15 Beneficiary States of the EEA Grants. We therefore hope that this process can be concluded as swiftly as possible and that the focus can then further move towards practical implementation of concrete programmes and projects.

- In 2015, the periodic review of Liechtenstein's sectoral adaptation in the area of **free movement of persons** took place. The EU thereby concluded that the arrangement should remain unchanged, since there was no change in the underlying reasons that are very specific to the situation of Liechtenstein. Let me take this opportunity to highlight the main features of this arrangement:
 - ✓ In principle Freedom of Movement applies to Liechtenstein as well. Most importantly, citizens of EEA member states can work in Liechtenstein without any restriction, be it as workers or as self-employed persons.
 - ✓ Due to the small size of the country and its limited absorption capacity, however, the right of EEA citizens to take up residency within the 160 square kilometres of Liechtenstein itself is subject to permission. Liechtenstein issues a certain minimum number of permits per year. Permits are granted in a way that is non-discriminatory and does not distort competition. Half of the permits are granted on the basis of a lottery system giving equal chances to all applicants. All EEA citizens residing legally in Liechtenstein have the right to family reunification, and their family members can also work freely in Liechtenstein.
 - ✓ The model of free access to the labour market with restricted residency has proven to be viable in the context of the specific geographic situation of Liechtenstein, a landlocked country with very small territory and very close links to the frontier region.
 - ✓ This is best understood when looking at the daily reality of work in Liechtenstein. Currently, more than 50% of the workforce employed in Liechtenstein lives outside of our territory. They commute at short distance from their residences in neighbouring countries.

(3) Justice and Home Affairs

- Another field of important and close cooperation is Liechtenstein's association with the **Schengen and Dublin Agreements**, which will mark its fifth anniversary in December 2016. For us, the functioning of the Schengen/Dublin System has utmost priority. Our open borders with Austria and Switzerland greatly facilitate the daily lives of our residents, our highly international workforce, and our visitors as well. Acts and measures developing the Schengen acquis are generally quickly implemented. We actively participate in overall 15 Council Working Groups within the COMIX framework; last year we participated in more than 600 meetings at Council and Commission premises. Rest assured that Liechtenstein remains fully committed to contributing to the well-functioning of Schengen/Dublin in the future.
- We nevertheless also face the challenge of ensuring due access to information and consultation. Associated Schengen States should as a general rule be invited to the Council Working Group on Asylum Matters and to the General Affairs Working Group, whenever issues related to Schengen are discussed there. Unfortunately, this has not always been the case in the past. As these issues become more and more important politically, so does the need for inclusion and active communication.
- A key factor in this regard is solidarity. Liechtenstein was one of the first European countries to actually fulfil its voluntary **resettlement** pledge under the 2015 EU resettlement scheme. Liechtenstein will also contribute voluntarily to the EU's **relocation** projects. In total, Liechtenstein committed itself in 2015 to shelter 63 migrants in these two frameworks – a high number in comparative terms. In this context, I would also like to mention the initiative "Liechtenstein Languages (LieLa)". This project is helping to convey basic language skills to asylum seekers, thereby allowing them to improve their daily interactions in their host country.
- Liechtenstein is also about to negotiate its accession to the **PRÜM network on police cooperation**, with the first round of negotiations starting already in September. We are also participating in the **ISF Borders Fund** and are currently finalising our national programme.

(4) Other areas of cooperation, including taxation

- During the last two years, our relations with the EU have also significantly advanced in other areas, especially regarding transparency and international cooperation in tax matters. Already in March 2009, Liechtenstein took a deliberate and far-reaching policy decision to support the increasing efforts on international cooperation in tax matters and to accept and implement **OECD standards**. In November 2013, the Government confirmed its commitment to the international OECD standards and committed to be an early adopter of the newly developed global standard on automatic exchange of information. Even earlier, Liechtenstein confirmed its readiness towards the EU to make this new international standard part of Liechtenstein's legal framework with the EU and thus to take it into account when revising the Savings Taxation Agreement.
- On 28 October 2015, Liechtenstein and the EU signed the **Agreement on the Automatic Exchange of Tax Information**. It reflects the evolution of EU legislation and – most importantly – it incorporates the OECD's Global Standard for Automatic Exchange of Financial Account Information. With the agreement's entry into force on 1 January 2016, Liechtenstein fulfilled its political commitment as an Early Adopter of the OECD Global Standard. This commitment is also underlined by Liechtenstein's extensive efforts to conclude bilateral tax agreements – both Double Taxation Agreements and Tax Information Exchange Agreements. In addition to that, the Multilateral Agreement on Mutual Administrative Assistance in Tax Matters has been ratified by Liechtenstein earlier this year. With the upcoming entry into force of that Agreement, Liechtenstein's network of exchange partners will cover more than 90 countries and jurisdictions.
- Liechtenstein is furthermore committed to the implementation of the **OECD Action Plan on tax base erosion and profit shifting (BEPS)**, with a view to ensuring a level playing field among countries. In this regard, the Government recently submitted to Parliament a number of proposed adaptations of the Tax Act, aiming to implement several aspects of the Action Plan. These concern, inter alia, the correspondence principle for dividends within corporate groups to avoid double non-taxation, coun-

try-by-country reporting for large multinational enterprises, and transfer pricing rules.

- The EU Anti-Money Laundering Directives are also relevant in this context: Implementation of the 3rd EU Directive is completed, and the work on the implementation of the 4th Directive is well-advanced.
- Furthermore, Liechtenstein continued the **dialogue with the EU Commission** on corporate tax matters and agreed also to participate in a hearing of the European Parliament's TAXE 2 Committee in March this year. We are closely following the plans of the EU Commission to draw up a common list of countries that do not comply with international transparency and good governance rules. In this context, we commend the Commission for having recognized the close cooperation between Liechtenstein and the EU in tax transparency matters in its last publication. We trust that the process will continue on the basis of accurate, objective criteria, and follow a proper procedure during which the special relationship with Liechtenstein as an EEA member and the ongoing tax dialogue will be taken into account.
- Speaking more broadly about transparency and international tax cooperation, we can confidently state that we have come a long way. Yet despite the paradigm shift initiated by our Government, despite the numerous reforms and the cooperation extended, a number of our financial businesses continue to experience discriminatory tax treatment abroad, including in certain EU Member States and in contravention of the EEA Agreement. We are working together with the EU Commission and *inter alia* in the context of the Code of Conduct Group on Business Taxation to address these cases. We do hope that the States concerned will look at these issues expeditiously and remove any such discriminatory laws and practices as soon as possible.

(5) Political dialogue, cooperation in other fora

- The EEA Agreement also provides for cooperation among the Contracting Parties in the context of international organisations and cooperation with third countries. This forms the basis for the regular **political dialogues** held between the EEA EFTA States and the EU in the margins of EEA Council meetings and at the level of the relevant EU Council Working Parties. These dialogues cover a very broad range of issues. Liechtenstein does its best to contribute actively to these highly useful and relevant meetings. The political dialogue furthermore includes alignment requests sent to the EEA EFTA States regarding EU Declarations on current foreign policy matters. So far in 2016, we received 23 such requests and declared alignment in all but 4 cases. Last year, there were 38 alignment requests to which we responded positively in 37 cases. These figures clearly illustrate the close cooperation between Liechtenstein and the EU in different areas of foreign policy. Liechtenstein's regular alignment with the EU's sanctions policy, including with respect to Russia/Ukraine, can be mentioned as a case in point.
- However, most of the coordination on foreign policy matters with the EU takes place outside of Brussels, at the various headquarters of organisations such as the Council of Europe in Strasbourg, the OSCE in Vienna or the UN in New York and Geneva. There, we cooperate closely with the Representations of the EU and its Member States in a number of areas, in particular promoting peace, human rights, justice and the rule of law. We are grateful for the support extended by the EU and its Member States for our initiatives. These include the Security Council Code of Conduct Against Atrocity Crimes, which is currently supported by 112 countries, including all EU Member States.
- We are also particularly active in supporting the **International Criminal Court**, for example through the Informal Ministerial Network coordinated by Foreign Minister H.E. Ms. Aurelia Frick, and through our Campaign for the ratification and implementation of the Kampala Amendments on the Crime of Aggression.¹ These initiatives not only show that we share the same values, but that there is room – and indeed a need – for small

¹ www.crimeofaggression.info

and flexible players to complement the work of larger groups and like-minded countries.

(6) The Liechtenstein economy

- Before concluding, let me briefly update you on domestic developments in recent years. The Liechtenstein Government has successfully continued its structural budget reform, launched in the aftermath of the 2008 financial crisis, cutting public expenditure by more than 20 percent, and strengthening public revenue. This effort has allowed us to return to a positive balance in 2015. Nevertheless, major challenges remain. Liechtenstein, like many other industrialised countries, faces demographic changes that endanger the sustainability of our system of social security. The Liechtenstein Government is therefore currently undertaking major reforms, including an increase of the retirement age, which should be concluded by the end of 2016.
- Despite the challenges faced by the industrial sector all over Europe, Liechtenstein remains among the world's most industrialised countries. 40 percent of our national economic output is generated by the industry sector. General services come in second, at 28 percent, and financial services third, at 24 percent. The Liechtenstein economy also managed to absorb the effects of the 2014 exchange rate surge of the Swiss Franc: exports recovered in 2015, following a dip in 2014. The strength of our economy and our public expenditure is also reflected in the renewal of the AAA rating by Standard & Poors, issued in July this year.

(7) Conclusion

- As I have stated at the beginning, much has been achieved in our relations with the EU in the last two years. This does not mean that progress has come about easily – in fact, a number of processes were, from our perspective, exceedingly difficult. Nevertheless, we would rather look toward the future. In doing so, we cannot help but notice the bigger picture of European integration. At this time in our common history, we must place greater emphasis on what unites us, rather than on what divides us. Taking the EEA Agreement as an example, this means that Con-

tracting Parties should never lose sight of the greater goals, even when encountering technical difficulties.

- Indeed, the EEA Agreement works best when we all keep the well-functioning of the EEA-wide Internal Market in mind, and when we overcome problems together with pragmatic solutions. This way, we will have the best chance of demonstrating to our citizens the full value of integration.

I thank you.