



Liechtenstein – facts and figures

Open to the world – sovereign – internationally connected

Bordering on Switzerland to the West and on Austria to the East, the Principality of Liechtenstein with an area of 160 square kilometers is the sixth smallest State of the world. Its population is 34.000, some 34 % of which are foreigners, mainly Swiss, Austrian and German citizens. The whole foreign population residing in Liechtenstein is composed of people from some 90 nations.

Liechtenstein gained its full sovereignty back in 1806 when it was admitted to the Confederation of the Rhine and later on to the German Confederation. It is the last remaining entity of the Holy Roman Empire. In 1868 Liechtenstein disbanded its armed forces and upheld neutrality during the First and Second World War. As an important part of its sovereignty, Liechtenstein pursues an independent and active foreign policy. It cultivates close bilateral relations with many States and engages in multilateral cooperation at the regional and global level, in particular through its membership in international organizations. Liechtenstein has been a fully fledged member of the Organization for Security and Cooperation in Europe (OSCE, former CSCE) since 1975 and of the Council of Europe since 1978. It joined the United Nations (UN) in 1990 and the World Trade Organization (WTO) in 1995.

Within the framework of its foreign policy, Liechtenstein's Government, as other States, protects the country's national interests, inter alia by means of providing security to its population, and acting in solidarity with the international community. Consistently, Liechtenstein is particularly engaged in human rights policy, the progressive development of international law, development cooperation, international humanitarian assistance, including disaster relief, as well as individual areas of international environmental policy. Within the scope of its possibilities, Liechtenstein is also engaged in general security policy and the promotion of peace, in particular through conflict prevention, in addition to its work on humanitarian aspects of armed conflicts.

While those priority areas have been the basis of Liechtenstein's foreign policy for several decades, there is sufficient flexibility to adjust to current trends and developments and to tackle new and emerging challenges. In recent years, Liechtenstein has paid particular attention to the fight against money laundering and the financing of terrorism, and has thereby joined and supported the intense cooperation of the international community in this matter. These concerted efforts are the result of the resolve to maintain Liechtenstein's position as a financial center that lives up to the highest international standards.

As a country that has lived in peace for nearly 200 years and has not been exposed to significant catastrophes in generations, Liechtenstein takes its international humanitarian responsibility seriously. It wants to help people who have been harder hit by fate. In 2003, Liechtenstein spent about 16 million Swiss francs for its International Humanitarian Cooperation. This is about 2 % of the total state budget for 2003 and corresponds to approximately 500 Swiss francs per capita. Since the Government decided in 2001 to honor its commitments from the Earth Summit in Rio de Janeiro and to contribute 0.7 % of the gross national product (GNP) as humanitarian assistance and development cooperation to developing countries, Liechtenstein's solidarity with poorer countries will further increase. According to the most recent calculations, Liechtenstein contributed in 2001 about 0.4 % (OECD average: 0,22 %).

Development cooperation makes up the largest share of these activities by far. It aims to remedy poverty in developing countries through economic, social and cultural development in sustainable ways and to raise the living standards of the population. The governing principle is "helping people help themselves". The state funds for development cooperation are administered by the independent "Liechtenstein Development Service Foundation" (LDS), whose mandate is approved annually by the Government. LDS administers about 60 development projects and programs in several countries, such as Bolivia, Peru, Nicaragua, Mali, Burkina Faso, Senegal, Mozambique, Malawi, Zambia, and Zimbabwe. The substantive focus areas of LDS are education, health, rural development, and small trades, with a particular emphasis on promoting women.

Prince and People govern together

Liechtenstein is a constitutional monarchy with a democratically elected parliament (the Diet). The unicameral Diet has 25 seats and Members are elected by universal suffrage using proportional representation for a period of four years. The Government is elected by the Diet and confirmed by the Prince. The consent of both the Prince and the Diet is needed to enact new legislation. The People enjoy extensive direct-democratic rights of popular referendum and initiative to request the enactment, amendment or revocation of a law or to make proposals amending the Constitution. Any resolution of the Diet concerning assent to an international treaty must be submitted to a popular referendum if the Diet so decides or if at least 1,500 citizens or at least four (out of eleven) communes request a referendum. Direct democracy in Liechtenstein reflects the strong tradition of communal self-government.

The ordinary court system consists of a district court, a court of appeals and a supreme court. Courts of public law are the Administrative Court and the Constitutional Court. The Administrative Court is the appeals instance against decisions and orders of the Government or commissions acting on behalf of the Government. The Constitutional Court reviews the constitutionality of laws and the legality of Government ordinances. It also acts as national instance to consider complaints lodged under the individual complaint procedure pursuant to the European Convention on Human Rights as well as for all existing complaint procedures under United Nations human rights treaties.

Treaty relations with Switzerland

Liechtenstein has close and friendly relations with both its neighbor countries, Austria and Switzerland. Since the end of the First World War an especially intensive

cooperation has developed with Switzerland. This cooperation is reflected in many 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 free movement of persons, made possible the abolition of any border or customs control between Liechtenstein and Switzerland. This greatly enhances the daily lives of the Swiss and Liechtensteiners living across from each other on the two sides of the river Rhine. Of equal practical importance to Liechtenstein's economy is the Currency Treaty which forms the legal basis for using the Swiss Frank as the official currency in Liechtenstein.

The provisions of the Customs Treaty stipulate that Swiss laws pertaining to customs as well as other federal legislation necessary for the implementation of the customs-free zone are applicable in Liechtenstein. Provisions of Swiss federal law which establish federal contribution requirements are exempt from this rule. In addition, all trade and customs treaties concluded by Switzerland with third Parties 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.

The Customs Treaty, concluded in 1923, also has symbolic importance for the particularly close relations that developed between Liechtenstein and Switzerland. The Treaty created the foundation for a harmonization of legal provisions in the areas of social and economic law, far beyond its scope of application. This close linkage is now manifested in a multitude of treaties, in particular in the areas of social welfare, vocational and professional training, indirect taxes, and police cooperation.

Liechtenstein and the European Union

Liechtenstein has been a full member of the European Free Trade Association (EFTA) since 1991, and it has been participating, since 1995, in the European Economic Area (EEA), i.e. the extension of large parts of the European Union single market to the three EFTA states Norway, Iceland and Liechtenstein. The same rules are applied throughout the EEA to create a homogeneous market. These rules relate to the so-called four fundamental freedoms (free movement of goods, capital, services, and persons) and to common rules of competition. The EEA Agreement is based on primary legislation of the European Union, as it has developed over the past forty years, and on subsequent secondary legislation (*acquis communautaire*). The membership, therefore, entails the obligation to transpose EU single market legislation into national law and to comply with supervisory law standards and principles applicable to the entire EEA (EU plus three EFTA States). By 2003, the overall number of adopted legal acts amounted to 4037. Common tax policies and the common agricultural and fishing policies of the EU are not covered by the EEA Agreement. In addition, since the EEA is not a customs union, trade policies *vis-à-vis* third countries are not part of the Agreement, either. Pursuant to Article 128 of the EEA Agreement, every country wishing to join the EU must simultaneously become a member of the EEA.

The EFTA Surveillance Authority with seat in Brussels, ensures that EFTA/EEA States (i.e. Iceland, Liechtenstein and Norway) fulfill their obligations under the EEA Agreement. In addition to general surveillance of compliance with EEA provisions, the Surveillance Authority also exercises expanded authority in the areas of competition, state aid, and public procurement. This reflects the expanded authority of the European Commission in these areas within the Community. The EFTA Court, with seat in

Luxembourg, corresponds to the Court of the European Communities with respect to matters affecting EFTA/EEA States. The Court deals with claims of treaty violations lodged by the EFTA Surveillance Authority against an EFTA/EEA State with respect to the implementation, application, or interpretation of EEA law, as well as with the settlement of disputes between two or more EFTA/EEA States. In addition, appeals against decisions of the EFTA Surveillance Authority may be lodged with the EFTA Court, and the national courts of the EFTA/EEA States may request opinions from the EFTA Court with respect to the interpretation of EEA law.

Economic diversity – highly specialized products – competitive know-how

The highly industrialized economy of Liechtenstein is characterized by a broad diversification of 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, and a highly developed financial services sector. The gross domestic product (GDP) reached about 4.2 billion (thousand million) Swiss francs in 2001. In absolute terms, Liechtenstein's GDP is around 100 to 1000 times smaller than the GDP of Switzerland or Germany, respectively.

About 39 % of GDP (2001) is the result of value added in industrial production and manufacturing, 30 % in the financial services sector, 25 % in general services, and the remainder of 6 % in agriculture. The export industry is the largest single element in the industry. The manufacturing programs include instrumentation, electronic control devices, precision tools, vacuum, heating and lighting technology, dentistry and pharmaceutical products, foodstuffs etc. The per capita value of exports is about 10 times the corresponding value for Germany, Austria or Switzerland.

The employment figures in Liechtenstein are extraordinarily high. With a population of 34,000, there are 29,000 jobs. This is only possible because the number of cross-border commuters to Liechtenstein is many times higher than the number of cross-border commuters from Liechtenstein. About 13,000 individuals commute daily from the region (Austria, Switzerland and Germany) to their workplace in Liechtenstein. This is about 45 % of the total workforce. As of 31 December 2002, jobs originated as follows: 53.9 % in commerce and services, 44.8 % in industry and manufacturing, and 1.3 % in agriculture and forestry. By international standards, the very low proportion of agriculture and forestry is striking, as is the relatively high proportion of the manufacturing sector. The service sector is considerably smaller than in other European countries.

The financial center

Financial services are an important economic sector in Liechtenstein, but not the largest. 18 % of persons employed in Liechtenstein work in the financial services sector. The services offered include in particular private asset management, international asset structuring, investment funds as well as insurance and re-insurance business. In contrast to many other financial centers no differentiation is made in Liechtenstein between resident and non-resident clients in terms of market access to such financial services. The close treaty relationship with Switzerland, the introduction of the Swiss franc as legal currency and the passing of the 1926 Act on Persons and Companies, that allowed for a broad selection of company forms, as well as an investor friendly tax system are the foundations on which Liechtenstein's financial center is built. The last 15 years have

been a particularly dynamic period for the Liechtenstein financial center. The accession to the European Economic Area in 1995 acted as a catalyst for a series of fundamental changes and facilitated access to the markets of other countries. Since then number of banks has increased from 3 to 16 and new fields of business have opened up in the funds and insurance sectors.

The Government is the primary authority for licensing all banking, investment, and insurance activities. But in order to further strengthen the quality of the financial center, it has submitted to the Diet a bill establishing an independent integrated financial supervisory authority, consolidating the current functions of the agencies involved in financial sector supervision and regulation. As an EEA member, Liechtenstein is obliged to transpose relevant EU legislation into national legislation. Accordingly, banking, insurance, securities, and accounting legislation is based on the relevant EU Directives. Because of its close monetary links with Switzerland, financial institutions – primarily banks – are also required to meet the accounting guidelines of the Swiss regulatory authority (Swiss Federal Banking Commission). Banks, insurance firms or fund companies with no physical presence are not permitted. The financial sector legislation has comprehensive provisions that set out minimum audit requirements and qualifications for auditors. Criteria for the licensing of auditors consider independence, professional organization and management, and financial soundness. The audit firms must certify that financial institutions comply with the law and the statutes, that the prerequisites for licensing are met permanently, and that the business is conducted on a sound basis. By law, auditors must have complete access to any documents they deem necessary to fulfill their duties.

In Liechtenstein, as in other countries, bank secrecy is not absolute. In criminal cases, the bank must produce documents if required and, if it fails to do so, the examining magistrate has the power to order a search. Anonymous accounts are unknown in Liechtenstein. A client may use a number or pseudonym if he wishes, but his identity and personal details are always known to the bank and there is no protection in cases of criminal activity. Bank secrecy may be lifted whenever knowledge of a person's private financial data is essential to the conduct of domestic or foreign criminal proceedings.

Tax evasion is a civil, not a criminal offence in Liechtenstein, contrary to tax fraud. This approach is based on the concept that the citizen is to be regarded as a trustworthy and informed person rather than an administered unit. Tax policy is long-term, stable and predictable. Tax decisions are taken close to the citizens, and they can initiate or turn down any tax law by popular vote. Central and local government expenditure is transparent and closely monitored. Administrative processes are short. The overall burden of taxation in Liechtenstein (level of tax revenue as a percentage of GDP) was at 22.1 % in 2000, compared to 27.5 % in Japan, 29.7 % in the USA and 42 % in the EU.

As a State party to the European Convention on Mutual Assistance in Criminal Matters without its additional protocol, Liechtenstein does not grant legal assistance in exclusively fiscal matters. However, judicial authorities are entitled to fully cooperate in criminal cases where fiscal matters are involved. In such cases assistance (including the lifting of bank secrecy) is granted, subject to a proviso that the information given may not be used to prosecute a fiscal matter. Information may also be shared in the framework of administrative assistance with foreign regulators while the information provided is only used within the scope of supervisory duties, as described in the request of the foreign authority.

Like other countries, Liechtenstein is interested in reappraising its history during the period of the Second World War. To this end, the Government has appointed an independent Historical Commission to investigate specific issues concerning the role of Liechtenstein in the Second World War. A specific law has been adopted which gives the Historical Commission and the researchers it retains access to all relevant records and files.

The globalization of the world economy has led to a close linking of the financial markets and to the liberalization of international financial flows which is facilitated by new information technologies. The far-reaching opportunities offered by technologies can, however, also be used for criminal purposes. As a globally oriented financial center, 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 combat money laundering and the financing of terrorism. At the national level, legislative, administrative and other practical measures have been taken in recent years to achieve this goal, and the relevant standards in Liechtenstein have been acknowledged by international bodies such as the International Monetary Fund (IMF).

Combating money laundering

Effective measures to prevent the laundering of proceeds from criminal activities constitute an essential part of the international efforts to combat crime. The first step in this endeavor is to make money-laundering a criminal and extraditable offence. Liechtenstein criminalized money-laundering back in 1996, recognizing all crimes and drug-related misdemeanors as predicate offences. In the meantime this provision has been tightened by including all corruption offences and terrorist financing as predicate offences and by criminalizing "own-funds" laundering as well as eliminating the knowledge requirement. Under Liechtenstein law it is therefore no longer necessary to prove that the suspect knew he was concealing proceeds of crime. Moreover, the burden of proof has been reversed with regard to the lawfulness of the origin of assets which are suspected to belong to criminal organizations. In this context, a new type of forfeiture was also introduced which allows for the confiscation of assets from crimes committed abroad as well as assets of criminal organizations. In addition, the legal basis was established to conclude sharing agreements with other countries.

The Due Diligence Act (DDA) is the legal basis for the preventive measures to be taken by financial intermediaries. The DDA requires for the contracting parties and the ultimate beneficial owner to be identified and stipulates the monitoring of the business relationships by establishing and keeping business profiles in order to distinguish usual from unusual transactions. The profile has to contain information on the contracting party and the beneficial owner, on all authorized persons, on the economic background and the origin of assets, on the profession and business activity of the beneficial owner and on the purpose of the use of the assets. The DDA also imposes an obligation for training and designation of specialized compliance and due diligence officers. It applies equally to all financial intermediaries including banks and finance companies, lawyers, trustees, investment undertakings, insurance companies engaged in direct life insurance business, currency exchange offices, and the Liechtenstein Post, as well as on a blanket basis, other persons who accept or keep in custody client assets. Financial

intermediaries are required to monitor relationships and accounts on an ongoing basis and to monitor transactions for unusual or suspicious activity that indicates a possible connection to money laundering, predicate offences, organized crime or terrorist activities. Suspicious activity reports (SARs) must be filed with the Financial Intelligence Unit (FIU). Banking secrecy does not pose an impediment to filing. There are both penal and administrative sanctions for failure to file SARs.

A fully staffed and resourced Due Diligence Unit (DDU) has responsibility for ensuring compliance with the requirements of the Due Diligence Act and to promote training and raise awareness of money laundering and financing of terrorism. The Financial Intelligence Unit is responsible for the collection, analysis and dissemination of financial intelligence and is a key gateway in the information exchange on money laundering and financing of terrorism with FIUs in other States. The FIU also has broad powers to obtain relevant financial information from financial institutions to supplement SARs before transmitting them to the Public Prosecutor. It works in close cooperation with the DDU, the Public Prosecutor and the Special Unit of the National Police which is responsible for investigations of white-collar crime, including money laundering, predicate offences and organized crime. In addition, the FIU has direct and close working relations with the Financial Supervisory Authority (FSA) concerning matters that may affect prudential supervision.

There is also a comprehensive framework for confiscation, freezing and seizing of assets, property and funds associated with money laundering and the financing of terrorism. The legal provisions authorize forfeiture upon conviction, siphoning off of amounts equal to unjust enrichment, and authorize civil *in rem* forfeiture, even in the absence of a criminal conviction. Confiscation, freezing and seizing may be executed on behalf of foreign countries through receipt of a mutual legal assistance request. Such assistance may be granted even in the absence of a bi- or multilateral treaty to which Liechtenstein and the requesting State are parties on the basis of the new Law on International Mutual Assistance in Criminal Matters. In addition, Liechtenstein law enables the Liechtenstein FIU to efficiently and quickly share intelligence information with foreign counterparts. The Liechtenstein Police, on its part, is closely cooperating with the police forces of the neighboring countries on the basis of a trilateral treaty on cross-border investigations. This treaty between Switzerland, Austria and Liechtenstein also provides for the use of controlled delivery.

Liechtenstein is a State party to the Convention of 8 November 1990 on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (Strasbourg Convention). As a member of the Council of Europe, it actively participates in the work of the Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval). Using the Financial Action Task Force on Money Laundering (FATF) as a model, this committee evaluates the implementation of the 40 FATF recommendations against money laundering and of the Strasbourg Convention in those member States of the Council of Europe that are not members of FATF. Moneyval has already conducted two evaluations of Liechtenstein's measures against money laundering (1999 and 2002). A number of experts from Liechtenstein have also participated as evaluators in visits of Moneyval to other countries, such as Cyprus, Monaco, Lithuania, and Albania. In addition, Liechtenstein experts contributed to IMF evaluations of Oman and Luxemburg as well as a FATF evaluation of the Russian Federation. In 2002, Liechtenstein underwent an Offshore Financial Center Assessment by the International Monetary Fund (IMF). In their report of September 2003, the IMF experts attested Liechtenstein's

preventive measures against money laundering and financing of terrorism a “*high level of compliance with international standards*”, i.e., a high degree of implementation of the 40 FATF recommendations on combating money laundering as well as the 8 special recommendation of the FATF on combating the financing of terrorism. In order to promote the worldwide implementation of these standards, Liechtenstein also supports the Global Program against Money Laundering (GPML) of the United Nations with financial contributions. An important thrust of this program is technical support in establishing effective Financial Intelligence Units in less-developed financial centers. Specialists from Liechtenstein also contribute their expertise to this activity.

Combating the financing of terrorism

Terrorism in all its forms and manifestations has consistently been condemned by Liechtenstein, regardless of the reasons that are invoked to justify it. Perpetrators of terrorist acts must be brought to justice, while addressing the root causes of terrorism is an important element in the prevention of terrorism. Liechtenstein is committed to effective international cooperation to combat terrorism. It has ratified all 12 international conventions relating to the fight against terrorism. In order to fully implement the 1999 International Convention for the Suppression of the Financing of Terrorism, a special legislative package was adopted, resulting in amendments to the Criminal Code, the Code of Criminal Procedure, and due diligence legislation. Liechtenstein is also a State party to the 1977 European Convention on the Suppression of Terrorism and has signed the Amending Protocol to this convention.

Liechtenstein fully supports the work of the Counter-Terrorism Committee (CTC) established pursuant to SC resolution 1373 (2001) and is engaged in an ongoing dialogue with the CTC on the measures taken in the global fight against terrorism. To this end, it submitted several reports (2001, 2002, 2003, 2004) to the CTC, documenting the measures it has taken to combat the financing of terrorism. In addition, Liechtenstein has expressed its willingness to make financial expertise available to the CTC and to render technical support to other States in implementing counter-terrorism standards. At the same time, Liechtenstein underlines the importance of balancing counter-terrorism measures with the need to protect human rights and fundamental freedoms and has cosponsored relevant resolutions of the UN General Assembly as well as of the UN Commission on Human Rights.

Furthermore, Liechtenstein has implemented the targeted sanctions adopted by the Security Council against Al-Qaida, the Taliban and associated individuals and entities (based on SC resolution 1267 (1999)). All entities and individuals named in the list issued by the Sanctions Committees are thus covered by legal provisions in force. Liechtenstein undertakes all efforts to put the sanctions into effect and therefore maintains close contact with the Sanctions Committee as well as relevant expert bodies. Liechtenstein is of the opinion that an effective fight against terrorism must be carried out on the basis of well-established principles of the rule of law.

Finally, Liechtenstein is a State party to a number of conventions that are not directly aimed at combating terrorism, but nevertheless contribute to the international efforts to fight terrorism, such as the 1968 Treaty on the Non-proliferation of Nuclear Weapons (NPT), the 1993 Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction and the 1972 Convention on the Prohibition of the Development, Production, Stockpiling and Use of

Bacteriological (Biological) Weapons and Their Destruction. Since particular terrorist acts may reach the threshold of crimes against humanity or war crimes, Liechtenstein's 2001 ratification of the Rome Statute of the International Criminal Court also deserves mention in this regard.

Combating organized crime

The efforts of the Liechtenstein Government are clearly focused on effective measures to cut off criminals and terrorists from their financial resources. Liechtenstein does not face the common forms of organized crime. Trafficking activities are easily detectable in a rural country with a surface area of 160 square km and 34,000 inhabitants. So far, no case of trafficking in human beings has been detected. However, the authorities are closely monitoring the situation of cabaret dancers, regularly checking their residence status, employment conditions and payment of wages, as well as their accommodation, thereby actively reducing the risk of exploitation. Regarding trafficking in drugs, Liechtenstein is more concerned with the consumption than with trafficking activities. As to arms trafficking, it has to be pointed out that Liechtenstein does not have any production or stockpile facility for any arms or weaponry. Arms brokering is subject to a strict licensing regime. On all these issues, Liechtenstein closely cooperates with its neighbours, its border with Austria being controlled by Swiss border guards. It has also signed the 2000 International Convention against Transnational Organized Crime and the two protocols on trafficking in human beings and the smuggling of migrants as well as the 2003 United Nations Convention against Corruption. Ratification is being prepared.

For further information please refer to:

General information on Liechtenstein: www.liechtenstein.li/en

IMF report on Liechtenstein: <http://www.imf.org/external/pubs/ft/scr/2003/cr03289.pdf>

CTC reports: http://www.un.org/Docs/sc/committees/1373/submitted_reports.html

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