



21.06.2005

Swiss - Liechtenstein Currency Treaty concluded 25 years ago

Liechtenstein already introduced the Swiss franc as its official currency in 1924 by law. However, a Currency Treaty between Liechtenstein and Switzerland was only concluded on 19 June 1980. On the occasion of the 25th anniversary of the Currency Treaty, Prime Minister Otmar Hasler visited Berne.

The Customs Treaty and the use of the Swiss franc as the common currency are the supporting pillars of the close economic cooperation between Liechtenstein and Switzerland. Over time, the common currency has given rise to tight linkages between the Swiss and Liechtenstein financial centers. At the meeting between Prime Minister Otmar Hasler in Berne with Federal Councillor Hans-Rudolf Merz and Jean-Pierre Roth, Chairman of the Governing Board of the Swiss National Bank, the smooth functioning of the Currency Treaty, which was signed on 19 June 1980, was emphasized.

Different interests

Long and intensive negotiations preceded the signing of the Currency Treaty on 19 June 1980 in the Federal Parliament Building in Berne by Prime Minister Walter Kieber and Ambassador Emanuel Diez, Director of the Directorate of International Law of the Swiss Federal Department of Foreign Affairs. Different interests had to be reconciled. At the request of Switzerland and under pressure, Liechtenstein had conceded in advance to revising its company law. The treaty explicitly maintained Liechtenstein's sovereignty over currency matters, but in practice, Liechtenstein placed itself under the Swiss currency system. The Currency Treaty only applies to currency, but not to banking legislation, which Liechtenstein continues to be able to shape autonomously. The main goal of the Currency Treaty was the creation of a legal basis that had not been considered necessary when Liechtenstein introduced the Swiss franc as its legal currency by a law dated 26 May 1924.

Reasons for the Currency Treaty

Indications of the necessity of a legal regulation of the currency only surfaced in 1965, when Switzerland took measures to channel the tremendous influx of foreign assets. Because of its lack of legal provisions, the Liechtenstein banking center exposed itself as an open flank with respect to these measures to protect the Swiss franc. Switzerland then



declared Liechtenstein as a foreign currency area, until Liechtenstein autonomously adopted identical measures. Similar problems surfaced again at the beginning of the 1970's. Again, Liechtenstein had to follow the Swiss measures in order to preserve unimpeded access to the financial system in Switzerland. At that time, Switzerland expressed its desire to the Principality to conclude a Currency Treaty. From the Swiss perspective, a currency agreement was necessary to close the gaps in Liechtenstein that allowed the measures protecting the Swiss franc to be circumvented. The interest of the Principality of Liechtenstein was to conclude a treaty that would secure open access to the Swiss currency area, even in times of currency turbulences.

“Chiasso” case and company law reform

The “Chiasso” case cast a shadow on the preparations for the Currency Treaty, leading to Swiss pressure to reform Liechtenstein company law. “Chiasso” was not the only case of abuse of Liechtenstein companies for financial transaction, but it was without a doubt the most spectacular, since Credit Suisse was also involved. The Chairman of the Swiss National Bank at the time, Fritz Leutwiler, demanded that Liechtenstein adopt reforms, especially to strengthen and tighten supervision of companies. “In Switzerland, these operations ran under Liechtenstein letterhead; in Liechtenstein, nobody knew what was happening in these institutions until shortly before they were discovered”, Leutwiler criticized, pointing out the necessity of tighter responsibility provisions in Liechtenstein legislation. Leutwiler’s criticism fell on fertile ground, and Liechtenstein undertook the reform of company law. Switzerland ultimately considered these revisions to be sufficient and gave the green light for the Swiss – Liechtenstein Currency Treaty.

Positive assessment by Liechtenstein

Even today, 25 years after its conclusion, the Currency Treaty is viewed in a positive light. Especially the link to the Swiss financial center has been advantageous for Liechtenstein. Liechtenstein’s banks benefit from the reputation of the Swiss franc as an investment currency, and access to the money, credit, and securities markets in Switzerland were secured. The treaty does not go beyond what is necessary to protect the Swiss franc. The freedom of both countries to design their own economic policy is not curtailed by the Currency Treaty. In this sense, Prime Minister Otmar Hasler used his visit to Berne to praise the currency agreement, which is one of a series of many important treaties between Switzerland and Liechtenstein.