

20 October 2009

Presentation by Ambassador Claudia Fritsche

TRUST AND TRANSPARENCY IN A CHANGING GLOBAL FINANCIAL ORDER: THE ROLE OF LIECHTENSTEIN

Introduction

Thank you very much for inviting me to speak to you. My particular thanks go to Consul Leodis Matthews and his wife Jackie Alexander who have arranged for this event. It is only a bit over two years since Liechtenstein established its honorary consulate in Los Angeles but since that time Lee and Jackie have done a wonderful job promoting Liechtenstein. I am sure most of you have done your homework and googled Liechtenstein before this morning. And I cannot blame you for not knowing too much about my country. We are after all small (the size of Washington DC), as well in size as in population (36 000). But size is relative. I would very much like to leave you today knowing that I have been able to make you realize that any sovereign country deals with similar challenges. How to go about them is up to each nation, and I will try to explain to you how we do it in Liechtenstein.

History

Before I share with you some thoughts about transparency and trust in the global financial order as well as about public diplomacy and the importance of diplomacy as such, I hope you allow me to give you a bit of information about the country that I have the honor to represent in the United States. The Principality of Liechtenstein is situated between Switzerland and Austria. Although archaeological findings prove that the territory has been populated since the 5th millennium BC, the Principality as such came into existence 290 years ago and has been a sovereign country since 1806. That's when almost all of the German

states disappeared from the map, but the Principality of Liechtenstein was accepted as a sovereign State into the Rhine Confederation, a political gesture of Napoleon to Prince Johann Adam I, who was the ruler then. The Principality is a constitutional monarchy on a democratic and parliamentary basis. The power is inherent in the reigning prince and the people. The 25 member parliament is elected every four years. It proposes to the prince the composition of the Government and the prince appoints the members of Government which consists of the Prime Minister and four additional ministers.

The Princely House of Liechtenstein

The Princely House of Liechtenstein is one of the oldest noble families in Europe. The family still has over 100 members only some of whom actually live in Liechtenstein. As the sovereign Head of State of Liechtenstein, H.S.H. Prince Hans-Adam II represents the country in relations with other States. He exercises his right to State authority in accordance with the Constitution and other legal provisions. Some of you who are interested in the arts may know that the Princely family owns one of the largest and most precious private art collections in the world. The Princely Collections embrace major European works of art spanning five centuries. They date back to the beginning of the 17th century. Like many other collections of this period, they are rooted in the baroque ideal of engaged princely patronage of the arts. For generations, the House of Liechtenstein has remained true to this ideal and systematically extended its collections. An active purchasing policy results in interesting new acquisitions. (Badminton Cabinet....."Ginevra d'Benci", National Gallery in Washington)

Economy – industrialization

Liechtenstein with its 60 square miles and a population of today 36 000 was a very poor agrarian country until after World War II. Prince Franz Josef II, who was the first monarch actually taking up residence in Liechtenstein in 1938, became a very important integration figure and promoted the transition of Liechtenstein

from an agricultural state to an industrialized country with a surprisingly diversified economy. The most important reasons for this upswing were the Customs Union with Switzerland, the introduction of the Swiss franc as our currency, the stable political and social conditions and a liberal organization of the economy together with moderate taxation. Today we are per capita one of the most industrialized countries in the world. 40% of our GDP is generated by the manufacturing industry and close to 30% by financial services.

Financial services

The number of banks in Liechtenstein has more than quadrupled within the last fifteen years, bringing increased attention to our small country as an international financial center. Private banking, wealth management and related services are key to this sector of the economy.

Though Liechtenstein takes pride in its favorable tax laws and banking privacy, we also want to ensure that the financial services offered by Liechtenstein are not being misused. Following the tragic events of September 11, it has become especially important that every country does its part to stop the financing of terrorism. Although Liechtenstein is small, we have an especially important role to play as a financial center in a globalized world and take this task most seriously. We are aware that our success as a financial center is dependent on our international reputation. A number of efforts continue to be made to guarantee that Liechtenstein's financial services are not abused.

Many of you are most likely aware of the international crackdown on low tax jurisdictions that has taken place over the last year, a focus also of the United States government. There is no denying that this past year has been very bumpy for Liechtenstein as well as for the financial services sector worldwide. However, Liechtenstein has stood committed to cooperating at both the international and bilateral levels, has concluded several tax information exchange agreements, including one with the US, and is committed to the OECD (Organization for Economic Development and Cooperation) standards of transparency.

Transparency and trust in a changing global financial order

When we think about corporations one comes to the conclusion that they are peculiar social organizations. They are designed to reveal but just as much to conceal. Managers attempt to control what information and knowledge flows across the boundaries of the corporation and who gets access to particular information. From the outside looking in, we can imagine that lots of interesting stuff is going on in a corporation. Creative minds are at work, huge resources are being moved around and new innovations are being crafted. Not everyone is however to see those activities. Because of the competitive edge, business concepts, product design and company strategy are often kept secret. But then, a corporation is also about revealing information: processes and procedures are made visible. Branding exercises are designed to display the core values and aspirations of a corporation to the public. To “open the books” to auditors is an internationally subscribed ritual. Global social transformations have brought challenges to the corporate world. The nation state loses influence over transnational corporations. “Corporate social responsibility” has gotten a hold of the agenda not only of corporations, but also non-governmental organizations, professional associations and government agencies. Responsible business policies and practices have become an integral part of any mission statement. The changing global landscape of economic operations requires the creation of new forms of control and surveillance of its actors.

All of what I have just mentioned applies also to financial corporations. The global financial markets industry has been experiencing significant turbulence over the last year and a half. There is no doubt that the current crisis is transforming the competitive landscape and the robust financial architecture of the future will have to include transparency, systemic intelligence and proactive management at every level.

These developments have a direct impact on financial privacy and banking secrecy, something about which you read occasionally when Liechtenstein is

mentioned in the news. Although many other financial centers have reacted similarly to the unstoppable trend towards more transparency, I trust you will understand that I tell you what we did in Liechtenstein. The Government and the Liechtenstein business community have recognized that we live in a time of fundamental and rapid development and change and that every country is obliged to act in a proactive and forward-looking way. The stabilization of the global economy and financial system is widely accepted and also acknowledged by Liechtenstein. My country has always had a diversified economy and is home to a number of companies in all sectors that are highly respected in the international business community. While the industrial sector is still the economy's main pillar, Liechtenstein's financial sector has developed well and plays an important role in the prosperity of our economy. Clients from around the world have placed their trust in Liechtenstein, in some cases for generations.

Through the "Liechtenstein Declaration" of March 12, 2009 , the Liechtenstein government commits to, and will implement global standards of transparency and exchange of information in tax matters as developed by the OECD (Organization for Economic Cooperation and Development) and will advance its participation in international efforts to counteract non-compliance with foreign tax laws. With this declaration, Liechtenstein has clarified its position regarding privacy and banking secrecy and confirms its readiness to speed up the negotiations of tax information exchange and other agreements in order to address the global issue of tax fraud and tax evasion as well as double taxation. In this process Liechtenstein will emphasize its responsibilities to address both the tax claims of other jurisdictions and the trust of its clients. Liechtenstein has a strong desire to continue to be recognized and accepted as a leading location for investment and wealth management according to its high standards of regulation and its high quality of services. Liechtenstein will continue to protect the legitimate privacy rights of its clients from around the world.

Our cooperation with the US Government has been very fruitful over the years. On the basis of a Mutual Legal Assistance Treaty (MLAT), we have worked together on a variety of cases involving financial crimes, corruption and asset forfeiture. We work with the Office of Foreign Asset Control (OFAC), the Financial Crimes Enforcement Network (FinCEN). Our Financial Intelligence Unit (FIU) has been engaged in disclosing the financial network of Abdul Qadeer Khan, the founder of Pakistan's nuclear weapons program. We have successfully worked to return to the Iraqi government a Falcon 50 airplane that used to belong to Saddam Hussein. Every year, the Liechtenstein authorities answer hundreds of foreign requests for mutual legal assistance, including financial and economic crime, corruption and money-laundering.

Multilateralism/International Organizations

Today's threats, whether "imminent" or "distant", ranging from climate change to combating terrorism, cannot be effectively dealt with in isolation and by individual countries. We cannot master these challenges by our own efforts and within our own borders. Multilateral efforts are essential, more than ever before. And for these to be effective and comprehensive, our multilateral organizations must be strengthened to respond adequately. I believe that we are witnessing a renewed commitment to multilateralism. This is not an expression of naïve internationalism, it is pure *Realpolitik*. The reaffirmation of multilateralism must be supplemented by a more active role played by regional organizations. We see in Europe how deeper European integration significantly contributes to broader multilateral efforts through the United Nations. Regional efforts, based on detailed knowledge of specific trends and conditions in individual parts of the world, can support and advance wider multilateral initiatives. Illustrative examples are the cooperation on terrorism in the European context, for example in the Council of Europe and the Organization for Security and Cooperation in Europe (OSCE). Liechtenstein is a member of both organizations, a founding member of the OSCE, and we joined the Council of Europe in 1978. Competitive advantages of these fora must be cultivated, both at the regional and global levels.

Some foreign policy experts have argued in the past that there is a transatlantic divide over the utility of international organizations – and diplomacy more generally. Contrary to public perceptions, however, this divide is not because the United States has acted on occasions in a unilateral way and Europeans prefer more the multilateral approach. The actual difference is more about the process than the outcome. For Americans, multilateralism is often a means to an end; for Europeans, multilateralism is an end in itself. I doubt however that this divergence over multilateralism will continue to persist. The long-term distribution of power, the medium-term distribution of threats and the shared sense of social purpose will make us all realize that cooperation on all levels will be the most beneficial approach.

Importance of Diplomacy and Public Diplomacy

Ladies and Gentlemen, diplomatic relations do not merely consist of one country explaining its policies and interests to the other. Diplomacy also serves as an opportunity to deepen a country's knowledge of the host country. In order to have a fruitful relationship and an effective partnership, it is essential to understand what makes a nation "tic". The United States is a multi-faceted country. Part of our goal as an embassy in Washington is to better understand the dichotomy of the US - to better understand who you are as a people. We believe that this type of understanding plays a crucial role in conducting relations. Though we live in a time now where the Internet, not to speak of blackberries, text-messaging, blogging and twittering, all play a crucial role in communicating, nothing can outshine the importance of establishing and maintaining real people-to-people relationships.

Many question whether the traditional forms of diplomacy are still necessary. There now seem to be thousands of media outlets with their own perspectives, thousands of so-called "experts" from whom you can gain insight into pretty much any sphere of interest. As our ability to access information grows, so does our ability to land on misinformation. Diplomacy allows nations to "cut through

the static" – to mute all of this background noise, and develop and sustain channels of dialogue to foster a greater partnership.

Conclusion

I have the great privilege to have served my country for the past 35 years. When Liechtenstein joined the United Nations in 1990, I was asked to open our Mission in New York and I served as the Ambassador there until 2002 when, once again, I was entrusted with opening a new diplomatic presence, namely our Embassy in Washington, Liechtenstein's first and only bilateral embassy outside of Europe. We have recently bought and built out a new home for the Embassy. It is part of the top floor of a contemporary building on the Georgetown waterfront. I truly feel I have the best job in the world. Having been entrusted twice with establishing a diplomatic representation is a truly great honor. Representing Liechtenstein first on the multilateral level at the United Nations in New York, and now bilaterally in Washington, has allowed me to spend my last 19 years in the United States. I have come to appreciate so much of what makes the US such a great country. I am particularly happy that the Honorary Consulate has allowed me and my Government to foster closer ties with the State of California. Since its establishment I have been here a number of times and I look forward to future visits, hopefully soon being able to bring my new Foreign Minister to California.

I want to conclude by thanking you once again for the opportunity to speak to you and to share a few thoughts with you.