

Embargoed until: 15 August 2008, 10:45 a.m

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SPEECH

**BY HIS SERENE HIGHNESS
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VON UND ZU LIECHTENSTEIN**

ON THE OCCASION OF NATIONAL DAY 2008

Dear People of Liechtenstein

After years of economic upswing, the world economy has cooled down considerably over the past months, triggered by the American mortgage crisis, and there is considerable uncertainty regarding the future. Since our economy has a strong international orientation, we also feel the impact of this change. For our industrial companies exporting worldwide, weakening sales markets and the weak dollar entail a difficult business environment, and our financial institutions and their clients are affected by the falling markets. The financial institutions have come under additional strain in the last half-year. The Schengen Agreement was approaching signature and the negotiations with the EU on an Anti-Fraud Agreement were far advanced. Given the negotiated solution Switzerland was able to achieve, it was clear that, after the Savings Tax Agreement a few years ago and the cooperation initiated last year with respect to indirect taxes, cooperation would also be achieved in the area of direct taxes. It was also well-known that the negotiations with the United States on a Tax Information Exchange Agreement would lead to further cooperation in tax matters.

Not least of all because this trend toward greater cooperation had been foreseeable for quite some time, the Government had developed a new vision for the financial center, together with representatives of the private sector and a wide range of experts. It was thus all the more regrettable that the implementation of the vision for the future developed within the framework of the Futuro project was substantially disrupted by the tax affair staged via the media.

Both our industrial sector and our financial institutions enjoy a strong position, and they have already overcome phases of weak economy and structural

changes in the past, so that they will likely be successful in overcoming difficult times in the future as well. The framework conditions for the financial center have certainly changed. However, the times in which Liechtenstein financial companies were able to base their success solely on political stability, the Swiss franc, and bank client secrecy in tax matters are already long gone, since the demands of international clients have become substantially more sophisticated. Many Liechtenstein financial institutions thus evolved considerably over the past years and now offer excellent investment products as well as first-class advisory and other services. It is no coincidence that Liechtenstein financial institutions have ranked at the top of undercover tests among German-speaking financial institutions in recent years. Some of the banks and insurance companies are also showing that Liechtenstein financial institutions can be successful in onshore business. The negative headlines of the tax affair have changed nothing in this regard.

With the conclusion of the Anti-Fraud Agreement, we would adopt the common European denominator in the area of cooperation on tax matters. We have made our contribution to the success of the negotiations so far. Since some European States appear to disagree as to whether this Anti-Fraud Agreement will redefine the European standard with respect to cooperation in tax matters, however, it is open to question when and how this Anti-Fraud Agreement – which has in principle already been completely negotiated – will enter into force.

Regardless of what happens with the Anti-Fraud Agreement, the international trends toward stronger cooperation in tax matters and the offers of cooperation we have already extended over the past months and years entail that we must place our system of mutual legal assistance and administrative assistance in tax matters on a new foundation. In the future, we should offer all States comprehensive cooperation if they are willing to find sensible solutions with us

for the client relationships we have built up, and if they are interested in fair and constructive cooperation for the future. We are not an offshore center as such, but rather have – in addition to the increasingly strong onshore sector of the financial center – an extremely successful industrial sector, which, in terms of economic output and jobs, is considerably larger than the financial sector. Solutions for the prevention of double taxation are therefore a logical and justified concern within the framework of more extensive cooperation in tax matters.

Despite this new level of cooperation in tax matters, we will continue to be able to distinguish ourselves sufficiently from other financial centers. While many States are introducing the “transparent citizen”, we practice a culture of privacy that goes far beyond bank client secrecy in tax matters. This different culture of privacy is also supported by our different understanding of the State, which builds on the strong relationship of trust between the State and its citizens. Our State understands itself as a service provider that advances the common interests of its citizens on a cooperative basis. Our State is here for its citizens, not the other way around.

It is foreseeable that many States will soon face great domestic policy problems, since they are unable to develop viable solutions in critical areas such as education, healthcare, and old age provision. Liechtenstein, however, already enjoys a comparatively strong position in these areas today and, due to its political orientation, is also able to undertake appropriate reforms to find solutions that can be paid for over the long term.

If we become aware of where we are today and where we are in comparison with other States, then we can look into the future from a strong position with confidence, even if the future will entail some changes to the current framework

conditions. Changes always also bring new opportunities. With stronger cooperation in tax matters, these opportunities may lie especially in onshore service offerings. Charitable foundations, insurance companies, investment funds, and pension funds are expected to grow substantially in the coming years, and they can be marketed more easily if Liechtenstein adopts the European standard with respect to cooperation in tax matters. These changes to the framework conditions remind me somewhat of our accession to the EEA. EEA membership was initially opposed primarily by representatives of the financial center. Today, many financial center players are among its greatest supporters. At the time, almost only dangers for the financial center were seen, but hardly the opportunities and new possibilities of the EEA. Today, the EEA is the best path for us toward onshore business.

We have the opportunity in our hands to show the world that not only individual institutions, but also the entire financial sector can be successful within the framework of greater cooperation in tax matters. We can be successful since we will continue to be a very attractive business location even under these conditions. But we can be even more successful if we implement additional reforms in this regard. We should therefore quickly undertake the reforms set out in the Futuro project, in particular:

- A tax reform to strengthen the location with new attractions that others cannot offer, and to eliminate any abatement problems in violation of the EEA.
- A reform of mutual legal assistance and supervision of the fiduciary sector, in order to guarantee our clients a high level of legal certainty and to reduce the possibilities for abusing the financial center.
- A reform of our academic and research location, so that we can strengthen critical know-how for the business location and thereby improve our traditional services as well as develop new services that we have perhaps

not even conceived of today.

Dear People of Liechtenstein

We do not need to worry about our economy as long as we decisively implement the needed reforms, whether in the areas of the Futuro project mentioned above or in the areas of education, old age provision, and healthcare.

After the speech by the President of Parliament, I would like to invite you in the name of my family to a reception in front of the Castle. I would like to warmly thank everyone who participated in organizing this National Day, and I wish all of you a wonderful celebration and God's blessings.

Vaduz Castle, August 2008