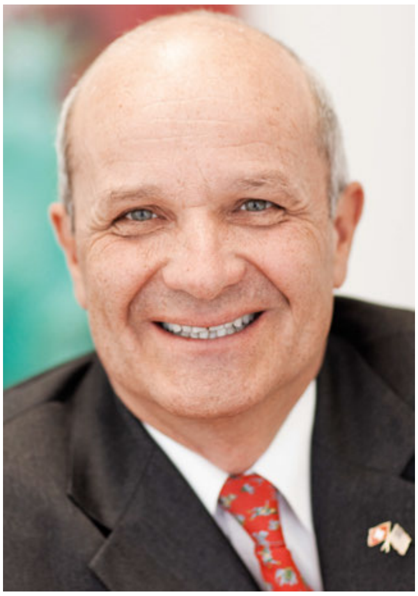
Switzerland – USA: Time to take stock

The business relationship between Switzerland and the U.S. is excellent. Over the last 5 years, Swiss exports to the U.S. increased overproportionally and reached a record 12.4% share of total Swiss exports. With 25.9 billion francs, Swiss exports to the U.S. reached an absolute record high in 2014. This proved to be a key factor for a positive export development for Switzerland. Massive direct investments by Swiss companies in the U.S. considerably improved the global competitiveness of these companies. Direct investments by U.S. companies in Switzerland made a considerable contribution to the know-how-based Swiss economy. However, these positive results were clouded by the dispute between the U.S. Department of Justice and Swiss banks. To view this as an attack on the Swiss banks or on Switzerland as a whole is deceptive: Swiss banks paid less than 4% of the total sum of fines imposed on U.S. and foreign banks by the U.S. authorities.



By Martin Naville
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After the considerable fine for Credit Suisse imposed in May last year and ahead of the resolution of the legacies within the "U.S. Program" by approximately 90 category 1 and 2 Swiss banks, the question arises whether these actions by the U.S. government were attacks against Swiss banks and Switzerland in general, or whether they were just a very painful problem within the otherwise excellent business relationship.

Undoubtedly, the 2.8 billion francs fine for Credit Suisse was harsh and certainly not devoid of a certain political arbitrariness. Catchwords such as record fines and economic warfare were omnipresent. Fact is that Switzerland is a rather minor element in the U.S. government's campaign against banks in the U.S.: The highest fines were all charged against U.S. banks (JP Morgan Chase: US$13 billion; Bank of America US$16.7 billion, US$ 11.8 billion, US$11.6 billion and US$ 9.3 billion). In total and over the last 5 years, banks have paid fines in the U.S. of more than $150 billion. Of that sum, U.S. banks had to pay more than 80%. Swiss banks on the other hand were charged with less than 4% of the total. Rightfully, the activities of the U.S. justice may be criticized, but in view of these facts, an attack on Switzerland cannot be honestly construed.

While the legacies of the Swiss banking secret has been a big handicap and annoyance for most Swiss banks, there has also been a bit of a revival in business with U.S. clients. 4 banks and more than 50 wealth advisors have received an SEC license to deal with U.S. clients, a very attractive client segment. And one bank, Vontobel Swiss Wealth Advisors, has even opened a new subsidiary in Dallas (Texas). With the resolution of the legacy issues – hopefully before the end of 2015 – and the (very) burdensome implementation of Fatca (the Foreign Account Tax Compliance Act), the path to more attractive business will again be open to Swiss banks.

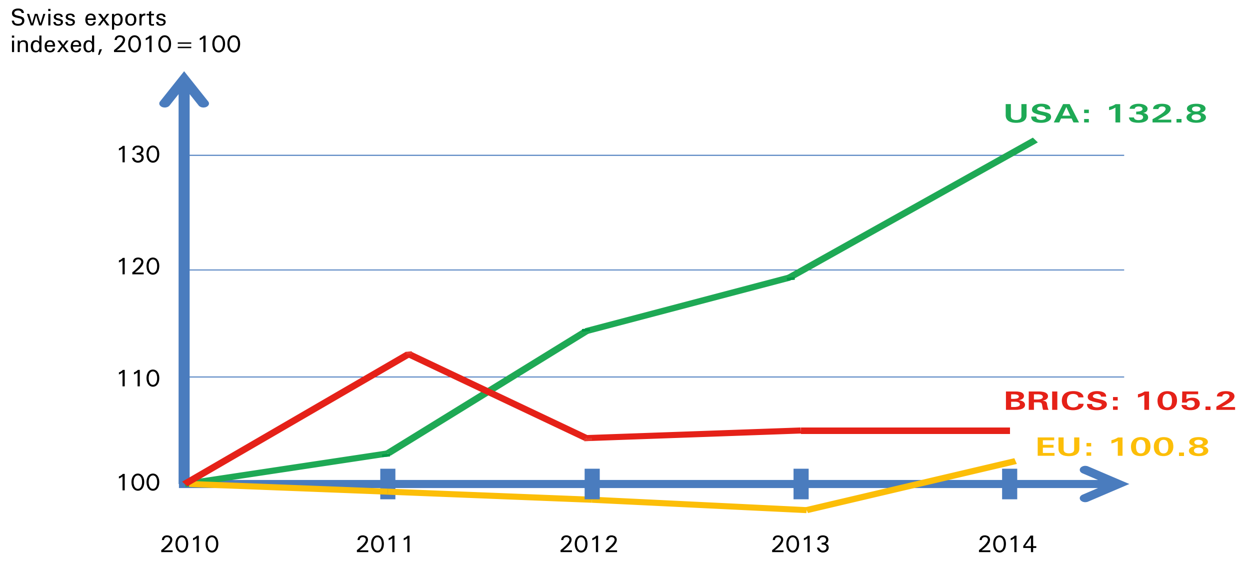
Due to the controversy with the Department of Justice, the last few years have been painful for Swiss banks. For other segments of the Swiss economy, however, business with the U.S. was booming. As mentioned above, 2014 was a record year in absolute terms (25.9 billion francs) and in relative terms (12.4% of all Swiss exports; for comparison: Germany 18.6%, France 7.2%, Italy 6.6%). From 2010 to 2014, exports to the U.S. have cumulatively grown 32.8% versus 0.8% to the EU and 5.2% to the Brics countries (Brazil, Russia, India, China and South Africa). Exports to the U.S. were the locomotive of the Swiss export industry.

During the last few years, Swiss direct investments in the U.S. were marked by major acquisitions, which strengthened the global competitiveness of these Swiss firms. Today, Swiss companies have invested more than US$200 billion in the U.S. and represent the sixth largest direct investor in the U.S., directly behind Canada and France, but ahead of Germany.

The U.S. market is of utmost importance as it leads, together with Switzerland, all relevant rankings in competitiveness and innovation. Swiss companies not only gain improved access to the world's largest market but also to leading-edge research, development and innovation. The strong flow of dividends from the U.S. to Switzerland (91 billion francs in the last 5 years) is a proof for the important profit contribution of the U.S. to the future of Swiss companies. The continued ability of Swiss companies to invest in the U.S. without handicaps will be crucial for their continued success.

Investments by U.S. companies in Switzerland such as IBM (world-leading nanotechnology research labs), Google (the largest development entity

Booming Swiss exports to the United States



Source: Federal Customs Administration, Swiss Amcham

outside the U.S.), Disney Labs, Medtronic and many others provide major contributions towards the knowledge and research location Switzerland.

The great business relationship enjoyed between Switzerland and the U.S. does not go unnoticed in the United States. At the recent SelectUSA Investment Summit in Washington, DC, a conference on foreign direct investment featuring President Obama and half the Cabinet in front of 2,800 participants from all over the world, Secretary of State John Kerry mentioned countries and companies on three occasions. Each time, he started with Switzerland or a Swiss company! The speech can be found at www.amcham.ch/news. This (scripted!) overexposure of Switzerland was also present in President Obama's speech. Switzerland is highly appreciated and given its fair mentioning. There is also a growing cooperation between the two countries in professional education and apprenticeships.

One upcoming risk is TTIP, the Transatlantic Trade and Investment Partnership. This negotiation between the U.S. and the EU enters its 9th round and many expect a result in Q1 2016. The agreement is planned to massively reduce import duties, reduce non-tariff barriers, establish mutual recognition of a large number of regulations and liberalize agricultural markets. It is expected that EFTA countries such as Switzerland will be invited to co-sign the agreement and join the Transatlantic Free Trade Area. However, ratification of a non-negotiated free trade agreement with massive effects on the Swiss agriculture markets will be a tough endeavor. But a Transatlantic Free Trade Area without Switzerland would handicap nearly 70% of our exports and exclude Switzerland from the most important economic area ever. An unthinkable thought.

Conclusion: The balance of the business relationship between Switzerland and the U.S. is highly positive in both directions, albeit clouded by one bitter problem. The success of this business relationship is of vital importance for Switzerland and its economy – and shall not be jeopardized by any means. The U.S. Program for Swiss banks provides the opportunity to find a solution for the current problem. For lack of feasible alternatives, this program has to be implemented as soon as possible. In view of the rather dull outlook on exports to Europe, Switzerland should not only grasp the economic opportunities with the Brics countries, but even more importantly with the United States of America. Business opportunities in a strengthening business environment abound. Swiss companies have a very attractive offering and a lot of experience navigating this highly profitable, but also highly competitive and complex market. The future looks bright, but Switzerland needs to ensure that a future Transatlantic Free Trade Area does not evolve without Swiss participation.

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The Swiss-American Chamber of Commerce

- The Swiss-American Chamber of Commerce deals with all economic policy issues hindering the free flow of goods, services, investment and people between Switzerland and the U.S. as well as all issues hindering the optimal operation of multinational companies based in Switzerland – large and small, Swiss and of foreign origin.
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