

FRIENDLY COOPERATION OR BUSINESS WARFARE?

Challenges and opportunities for the relationship between Switzerland and the United States in 2010

BY MARTIN NAVILLE*

Over the last 12 months, the United States of America seem to have attacked Switzerland in its core elements: its Swiss banking secret and its largest bank. And with additional measures directed against real and presumed tax havens, against the protection of personal discretion, against (legal!) tax optimization by large corporations with their European headquarters in Switzerland and against many other activities, directly or indirectly. Many people in this country feel threatened by the USA. One prominent banker even calls the USA the most aggressive country since the Second World War and calls for a full withdrawal from America! Is this a business war, or is it just a disagreement within a great friendship?

COMMON HERITAGE

Switzerland and the USA have a long history of friendship and partnership. In the late 18th century, the newly founded US looked to Switzerland for the optimal form of government structure. This is the reason why our two countries both have a unique form of federalist government.

Switzerland, in turn, looked to the US when drafting the first Swiss Constitution around 1846. The Swiss Constitution is deeply inspired by the US Constitution, and this is the reason why to this day

the basic values of individual freedom and democracy of both countries remain extremely close.

For these reasons, the US and Switzerland have often been labeled "The Sister Republics".

WIN-WIN COOPERATION IN BUSINESS

These Sister Republics also have a long-standing and successful cooperation in business. Viewed from Switzerland, the USA is our second-largest export market (after Germany, but ahead of France, Italy or the United Kingdom) and by far the largest direct foreign investor in Switzerland, with some 650 US companies providing 120,000 highly qualified jobs for Swiss residents. The contribution of US companies to the Swiss economy is around 5 percent – the same size as the entire private banking sector!

Seen from the perspective of the US, Switzerland is a much more important business partner than its small population or geographic size would seem to imply. Switzerland is the 7th largest direct foreign investor in the US, providing approximately 500,000 jobs directly and indirectly to American residents. Exports of US goods to Switzerland equal its

exports to Finland, Sweden, Norway, Denmark and Austria – combined!

For the large majority of internationally active Swiss companies, large and small, the US market represents 30 percent or more of their total sales, and as a group, they attain above-average profitability in that market. The US market is of eminent importance for the continued success of these Swiss companies.

In light of these activities, the business relationship between our two countries can indeed be labeled as "extraordinary". And in spite of the current economic problems facing the world economy, this business relationship has held up comparably well over the last 24 months. For the future, great opportunities are available for Swiss firms in the US in such sectors as precision engineering, infrastructure, public transportation, med tech and healthcare solutions, energy efficiency and others.

VALUABLE PARTNERS IN A BROAD RANGE OF ACTIVITIES

The close cooperation between Switzerland and the US is not limited only to business. It extends to all facets of modern society. Switzerland is the protecting power of the US in Iran and Cuba, and it also represents Cuba in the US. ▶

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In many places around the world, the two countries strive for common goals in close cooperation, be it in the Turkey-Armenia issue, in Darfur or in the Balkans, to name just a few. In humanitarian efforts, this cooperation is very close, and joint operations are frequent. The US government is one of the foremost sponsors of the International Committee of the Red Cross (ICRC), and the American Red Cross organization is the largest member of the International Federation of Red Cross and Red Crescent Societies (IFRC). The United Nations Organization (ONU) has only two headquarters: New York and Geneva, and Geneva is the seat of many UN organizations such as WHO, ILO, UNCTAD, UNICEF, UNHCR.

Switzerland and the US are in close cooperation in a large number of international organizations such as the World Trade Organization, the World Intellectual Property Organization or the International Telecommunications Union, to name just a few. In addition, there is an astonishing array of collaborations in science and education, promoting the knowledge economy in both of our countries.

DIRE STRAITS IN WASHINGTON, DC

As we all know, the USA is going through turbulent times. With the financial crisis and the economic crisis affecting all sectors of life, the financial challenges for this country are vertiginous. To help solve the crisis and cushion the effects for its citizens, the US government invested more than US\$ 14,000 billion (approx. the entire US GDP!) in stimulus and other payments, in credits and in guarantees. So it is clear that raising additional tax revenues has to have top priority for the government. And it is just as evident that it starts with those who have illegally not paid their due taxes (tax evaders) as well as with those who the current government feels are (legally) avoiding their "fair share" of taxes (internationally active companies). This goal currently takes precedent over all other considerations, and possible negative "side effects" are signally neglected in the discussion.

ISSUES IN USA-SWISS RELATIONSHIPS

Most of the issues that have aroused the media and the public in the last 18 months revolve around the taxation of so-called "US Persons", i.e. US passport and Green Card holders. In search of additional tax revenue, the Internal Revenue Service's (IRS) justified interest in pursuing tax evaders and tax defrauders clashed with the democratically established Swiss system of banking secrecy. However, the IRS's initiative was never an attack on Switzerland, but was rather directed at inducing (through massive threats!) tax evaders to voluntarily declare their financial position, to frighten all possible tax optimization specialists away from helping US persons to hide taxable substance and to assure the people of the US that everybody will pay taxes in the future - the rich and the poor. The IRS has attained these goals beyond its wildest dreams. However, Switzerland has been used as a scapegoat and a punching ball in many of these discussions - only an unfortunate "collateral damage" seen from the US perspective, but still tough to digest for the Swiss.

In spite of these turbulent times in the Swiss-US relationship, the underlying strong partnership continues with full energy, without slowing down. Nowhere was there a sign of economic warfare between the two countries, except in the Swiss media. The US public barely took notice, and contrary to some Swiss perceptions, the positive reputation of Switzerland as a great friend and partner of the US has suffered only temporarily. It is obvious, however, that such a reputation cannot be taken for granted, but needs to be constantly renewed. The Swiss government's plans for a special credit for public relations efforts can only be applauded.

WHAT IS IN STORE FOR THE COMING MONTHS AND YEARS?

In view of the difficult situation in the US (and with mid-term elections looming in November, 2010), one can expect a large number of initiatives to stimulate and support the US economy and to increase

tax revenues. Some of these initiatives will have protectionist side effects, while others will have negative side effects affecting the countries most closely involved with the US economy such as Switzerland. Some of the measures that need to be closely monitored are the probable initiatives to fight tax havens worldwide, tighter rules for qualified Intermediaries, stricter implementation of the extraordinarily extensive US estate taxes, increasing corporate taxes of multinationally active US firms and other initiatives that have extra-territorial effects.

WHAT DO WE NEED TO DO?

First, in Switzerland we always need to remember that none of these actions are aimed at Switzerland specifically, but rather have domestic targets in mind. So we need to cool down the rhetoric and consider the big picture instead.

Second, we - the Swiss government, the Swiss Parliament and the internationally active companies - need to have a much more open dialog within the country in order to understand the risks and the opportunities that lie in our close relationship with the US.

And third, we should not take our relationship with the US for granted. We need to seek all possible communication channels and depict Switzerland the way it is: as a highly competitive and innovative economy, a strong proponent of the free international market, one of the cleanest financial locations in the world in terms of the fight against money laundering, against the flow of illicit funds, the financing of terrorists, international corruption and - recently - in terms of cooperation in tax matters. And last but not least: Switzerland is a reliable, politically stable, internationally open partner of the US, propelled by the same deeply rooted values of personal freedom, equality, democracy and rule of law. ✚

** Martin Naville is the CEO of the Swiss-American Chamber of Commerce.*