Swiss-American Chamber of Commerce

28.09.2021

Economics of change:

Exploring opportunities and challenges of Swiss companies in the U.S.

Executive summary

For decades, the United States has been one of the most important markets for Swiss companies. Even as the U.S. has moved through multiple presidential administrations, these relationships have proven mutually beneficial. Today, economic ties remain strong; however, lately there have been some signals of disruption.

The Swiss-American Chamber of Commerce, in collaboration with Accenture Research, has interviewed more than 40 C-level executives of Swiss companies about their business strategies in the U.S. The interviews revealed the following insights:

- Swiss companies generally consider the U.S. a great market in which to operate but see specific challenges that could impair their ability to increase growth and performance.
- Given high uncertainty about how much of the government's economic agenda will be implemented, companies have identified clear challenges and threats but are mostly taking a wait-and-see approach.
- Swiss companies have already begun to embrace a local-by-local model to segment their operations, with a goal of minimizing regional interdependencies and proactively mitigating potential impacts of geopolitical risks.
- With some key caveats, most Swiss companies remain bullish about their future in the U.S. given the strong expected economic rebound and opportunities offered by several policy actions.
- Specifically, three areas emerged as important to maintain or increase success in the U.S.: Swiss companies see the need to improve supply chain risk management, increase productivity and expand apprenticeship programs.

This report highlights how economic relations between Switzerland and the U.S. have evolved over the past decade, explores factors creating risk and uncertainty, and expands on the findings from interviews with executives of Swiss companies about their plans for navigating change in the U.S. market.

U.S. is top export market for Swiss goods

The commercial relationship between Switzerland and the U.S. has grown steadily over the past decade. In 2009, 8.7% of Swiss exports went to the U.S. By 2020, that percentage had increased to 23% – making the U.S. the top importer of Swiss goods. In the same period, the pharmaceutical and chemical industry increased its share of exports by 17 percentage points, making this sector the top exporter to the U.S. Two other sectors – precision instruments and equipment, as well as machines, appliances and electronics – have seen their shares decline. In 2009, these sectors accounted for 12% and 14% of exports, respectively. By 2020, each had shrunk to 9%.

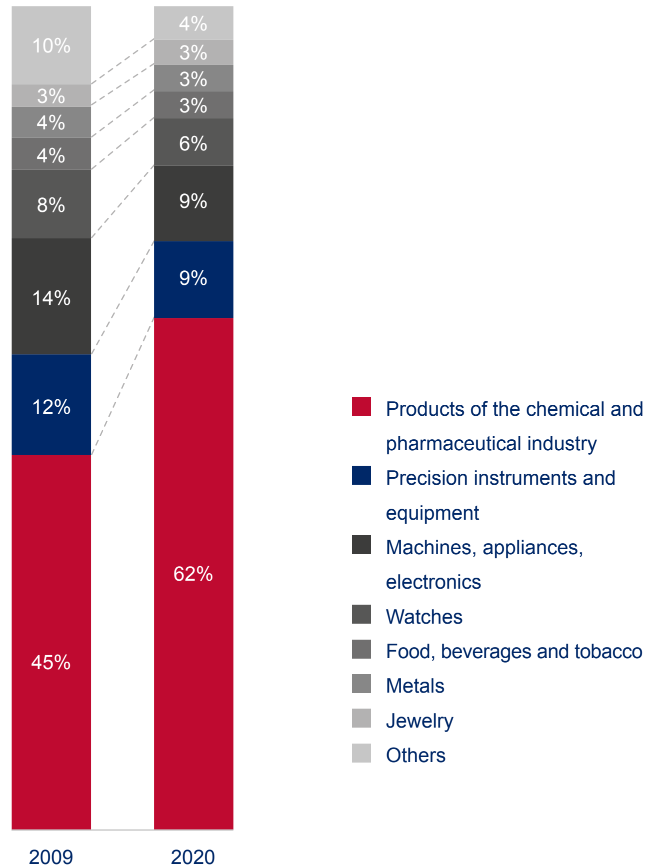
Swiss exports by trading partner, 2009

Trading partners	Rank	CHF mn	Share (%)
Total		196,000	100.0
Germany	1	35,672	18.2
U.S.	**2**	**17,091**	**8.7**
Italy	3	15,327	7.8
France	4	14,406	7.4
India	5	10,368	5.3
United Kingdom	6	8,428	4.3
Austria	7	7,800	3.98
Japan	8	6,605	3.4
Spain	9	5,684	2.9
China	10	5,331	2.7

Swiss exports by trading partner, 2020

Trading partners	Rank	CHF mn	Share (%)
Total		299,462	100.0
U.S.	**1**	**68,842**	**23.0**
Germany	2	46,081	15.4
China	3	16,363	5.5
United Kingdom	4	15,784	5.3
France	5	15,430	5.2
Italy	6	14,600	4.9
India	7	10,852	3.6
Austria	8	7,696	2.6
Spain	9	7,530	2.5
Japan	10	7,057	2.4

Swiss Export in the U.S. by type of good (% on total)



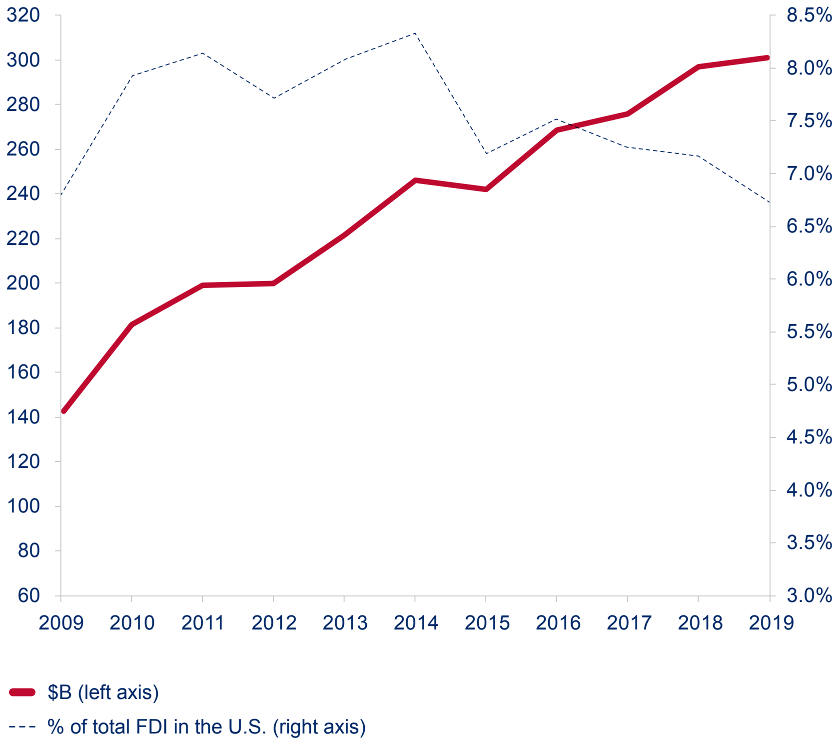
Source: Swiss Custom Administration data

Switzerland is major investor in the U.S.

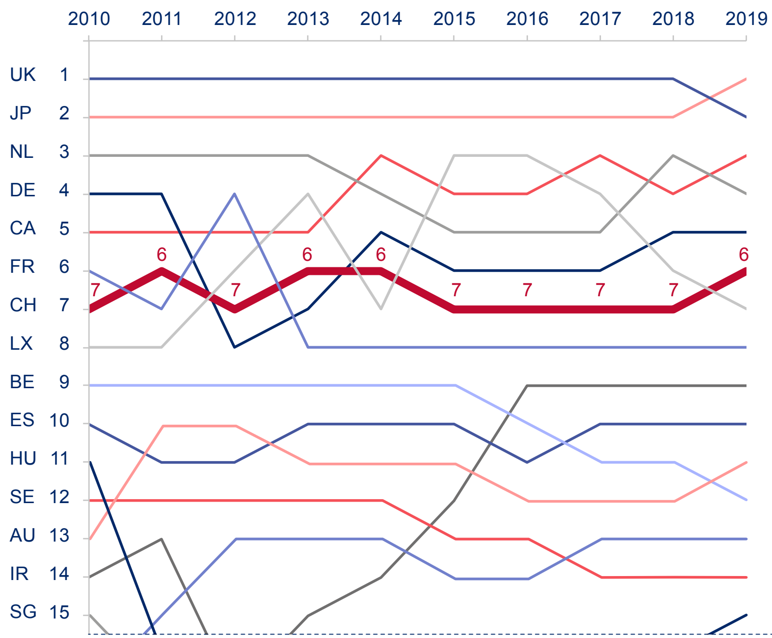
Although Switzerland is a small country, today's share of Swiss foreign direct investment (FDI) – that is, investment made by a Swiss company into business interests located in the U.S. – is at 6.7% of total FDI in the U.S.

Starting in 2019, Switzerland has exceeded $300 billion in FDI in the U.S., reflecting an annual growth rate of 5.6% since 2010. This level of investment underscores the importance of business relationships between the two countries and serves as a positive indicator for stronger growth of Swiss firms participating in the American market. It suggests that Swiss companies remain bullish about producing, exporting and selling products in the U.S. Yet even when accounting for the country's small size, Switzerland has a lower growth rate than several countries in the Top 10. Only the United Kingdom and France have increased FDI in the U.S. more slowly than Switzerland.

Swiss FDI in the U.S.



Top 15 countries by volume of FDI in the U.S. (2010 – 2019)



	Value 2019 ($B)	CAGR 2019 – 10
JP	619.3	10.4%
UK	595.6	3.5%
CA	495.7	11.1%
NL	487.1	8.5%
DE	372.9	7.0%
CH	**300.4**	**5.8%**
LX	297.1	6.4%
FR	282.2	4.5%
IR	225.5	28.2%
ES	86.8	8.1%
AU	81.0	9.5%
BE	65.9	-0.6%
KR	61.8	16.4%
SE	52.7	3.5%
HU	52.4	3.2%

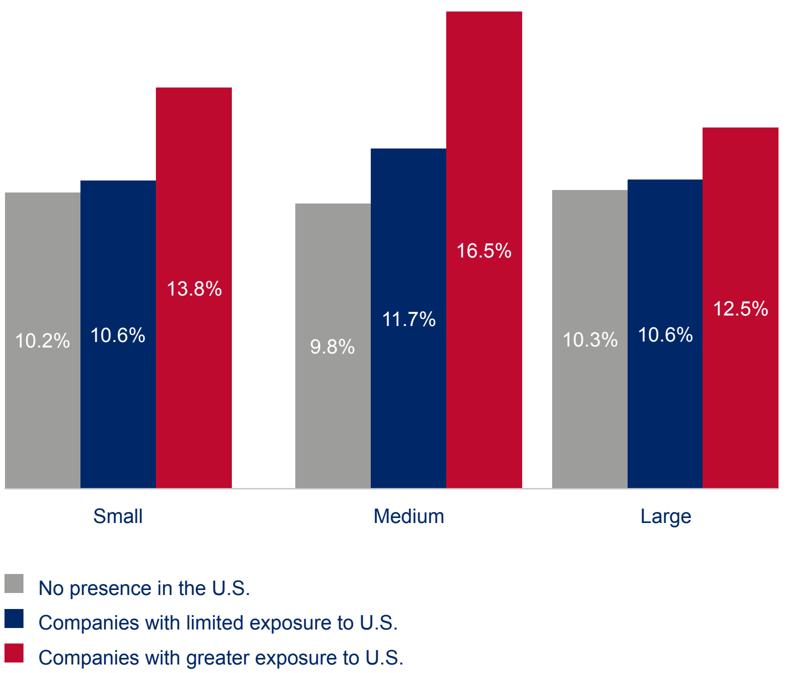
Source: Bureau of Economic Affairs

Greater U.S. exposure correlates with higher performance (1/2)

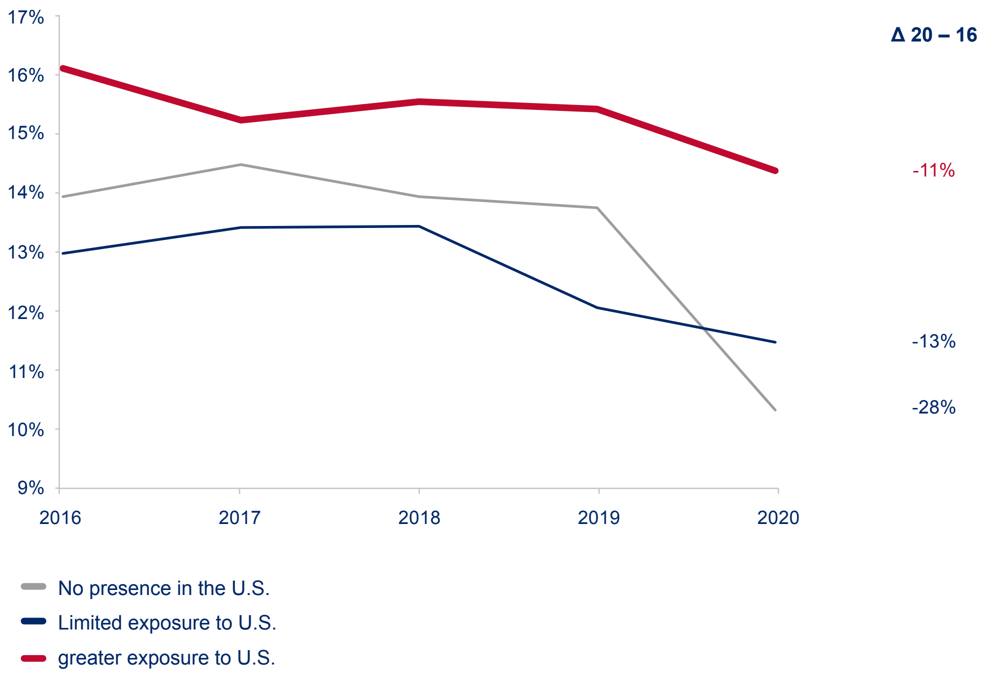
Even as trends have ebbed and flowed, exposure to the U.S. correlates with higher performance for Swiss companies. Our analysis shows that for the past five years, Swiss companies with more exposure to the U.S. have maintained a higher operating margin and greater operating resilience.

Performance difference among Swiss companies

EBITDA margin 2020 (%)



EBITDA margin by level of exposure to the U.S. (%, 2016 – 2020)



Note: Analysis based on a sample of 113 Swiss companies, operating in 13 different industries. Companies with greater (limited) exposure to US are companies whose US-based revenues are higher (lower) than 15% of their total Revenues

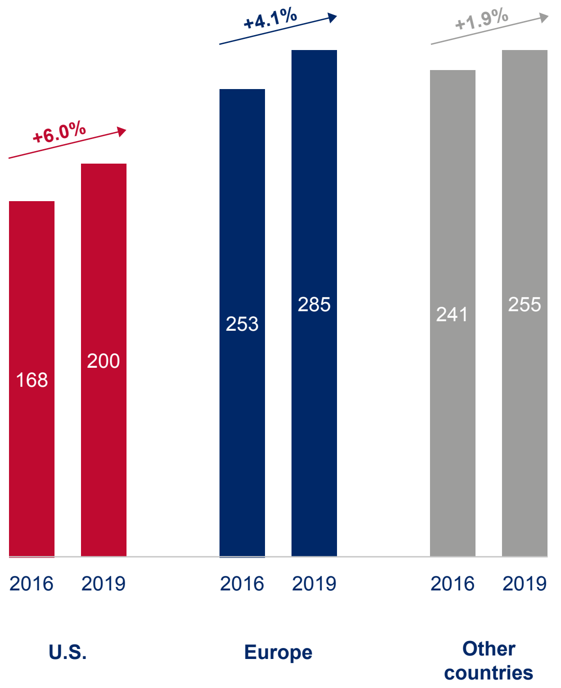
Source: Analysis on Annual Reports and Capital IQ data

Greater U.S. exposure correlates with higher performance (2/2)

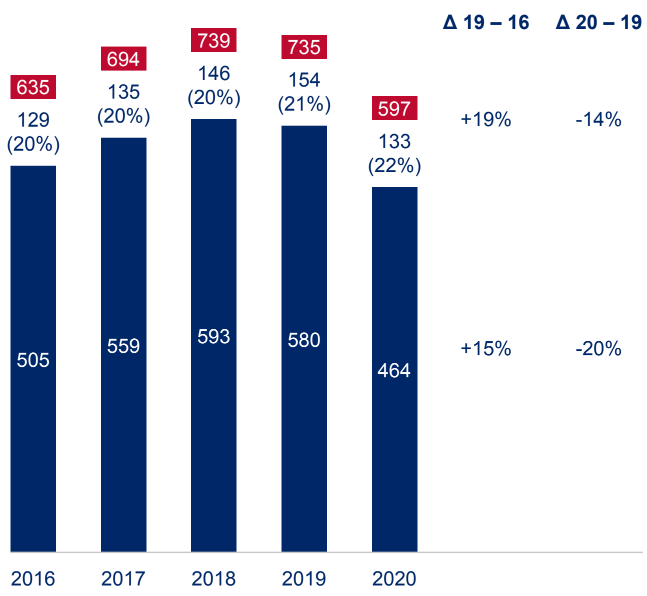
In addition, growth of turnover among Swiss subsidiaries in the U.S. is outpacing growth in other countries. Data from the Swiss National Bank show that from 2016 to 2019, U.S. revenue growth outpaced growth elsewhere.

Moreover, our analysis of 77 Swiss companies operating in the U.S. shows that, although the pandemic wiped out most of the increase in turnover generated in the U.S. since 2016, the weight of U.S. turnover as a portion of total turnover grew from 20% in 2016 to 22% in 2020. This is true for companies of all sizes.

Turnover of Swiss subsidiaries abroad (CHF billion)



Turnover of a panel of 77 Swiss companies with presence in the U.S. (CHF billion)



Company size (2020 revenues in CHF)	Turnover in the U.S. (2016, % tot.)	Turnover in the U.S. (2020, % tot.)
Over 3 billion	21%	**23%**
1 – 3 billion	19%	**19%**
0,5 – 1 billion	17%	**18%**
Below 0,5 billion	14%	**18%**

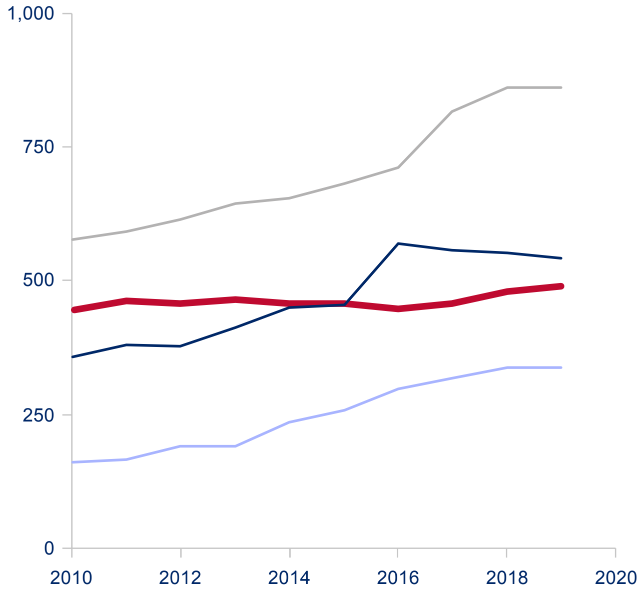
Source: Swiss National Bank (SNB), Analysis on Capital IQ Data

Swiss companies: Losing ground in the U.S.?

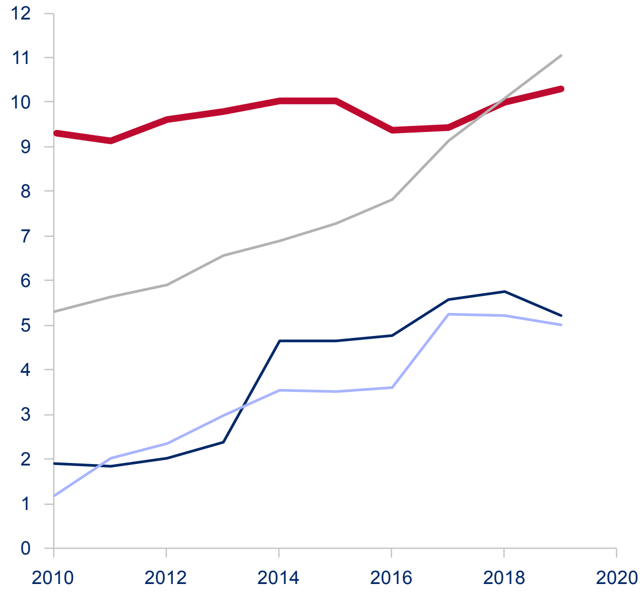
Swiss companies operating in the U.S. have been a reliable source of innovation, investing more than $10 billion in research and development in the States in 2019. For several years, Swiss companies were the top investors in innovation but were overtaken by Germany in 2018.

Swiss companies have grown their R&D spending by a bit over 10% since 2010, far outpaced by companies based in Germany (which doubled spending), the Netherlands (which nearly tripled it) and Ireland (which quadrupled it). The trend is similar for growth in number of employees. While Swiss companies have grown their U.S. employee base by 10% since 2010, Dutch and German firms have grown by more than 50% and Irish companies by 110%.

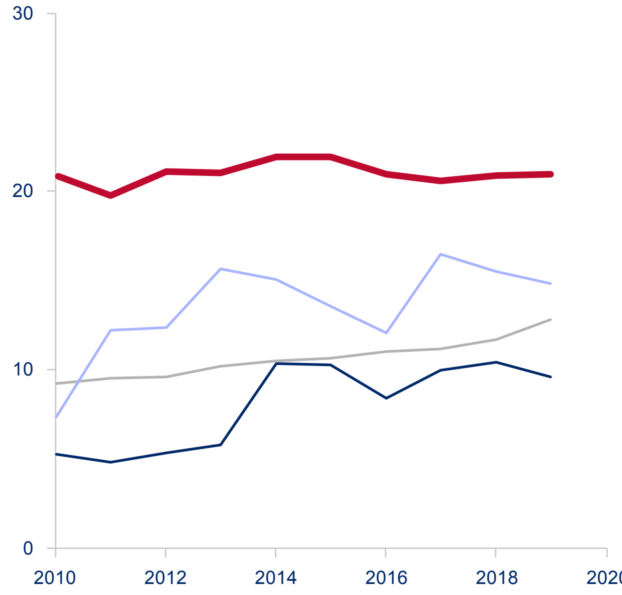
Employees of U.S.-based foreign subsidiary by country (thousands)



R&D of U.S.-based foreign subsidiary by country ($B)



R&D per Employee of U.S.-based foreign subsidiary by country ($K)



CH
NL
DE
IR

Source: SNB and Bureau of Economic Affairs.

Swiss-U.S. relations: Losing momentum?

Following a decade of shared growth and prosperity, some events occurring in 2020 and 2021 have raised doubt and uncertainty among Swiss companies.

1. Silence on a free trade agreement
Switzerland has healthy trade relations with other countries, with recent negotiations for trade with India, Vietnam, Malaysia and the Mercosur countries (Brazil, Argentina, Uruguay and Paraguay). As of this writing, Switzerland has 30 free trade agreements with 40 countries and with nine of its top 10 export markets. However, it has no free trade agreement with its number-one export market: the U.S.

In 2006, Switzerland and the U.S. signed a Memorandum of Understanding establishing a framework to intensify cooperation and bilateral relations. Thirteen years later, a U.S.-Swiss free trade deal was on the agenda of the 2019 meeting of the World Economic Forum. However, a deal has not yet happened, and the topic has slipped off the agenda.

2. Switzerland in the monitoring list for currency manipulation
At the end of 2020, the U.S. Treasury named Switzerland as a currency manipulator, as it met all three criteria for this designation.[1] No sanctions have been applied, and although Switzerland met the three criteria again in April 2021, the Treasury stopped defining it as a currency manipulator. Instead, the Treasury re-classified Switzerland with other countries on the "monitoring list."[2] The Treasury determined there was insufficient evidence to make a finding that Switzerland manipulated its exchange rate to prevent effective balance-of-payment adjustments or to gain an unfair competitive advantage in trade.

Indeed, in considering the development of the Swiss Franc-U.S. Dollar exchange rate, there is clearly no currency manipulation. If there were, Switzerland would be falling short in its efforts. Consider that over the past two decades, the Swiss Franc has appreciated 100% to the U.S. Dollar. In 2001, one Swiss Franc cost $0.57; today it costs $1.14.

However, the scrutiny is not over. The Treasury said it commenced enhanced bilateral engagement to discuss with Swiss authorities options to address the underlying causes of Switzerland's external imbalances.

3. Taxes under the microscope
The new U.S. Administration has initiated a push toward a global tax minimum. In his remarks to a joint session of Congress on April 29, 2021, President Biden referred to Switzerland as a tax haven: "A recent study shows that 55 of the nation's biggest corporations paid zero federal tax last year. Those 55 corporations made in excess of $40 billion in profit. A lot of companies also evade taxes through tax havens in Switzerland and Bermuda and the Cayman Islands. And they benefit from tax loopholes and deductions for offshoring jobs and shifting profits overseas. It's not right."[3] When it comes to Switzerland, Biden's statement does not take into account that the country's Effective Tax Rate (ETR) is 20%. Its ETR is higher than 15 EU countries and does not compare with the 0% ETR of Cayman Islands or Bermuda. In any case, changing tax policy – by increasing rates and enforcement – has emerged as a key priority of the new Administration.

[1] Based on The Trade Facilitation and Trade Enforcement Act of 2015, a country is labeled as a currency manipulator by the U.S. Treasury Office of International Affairs if the following criteria are met:
- Existence of bilateral trade surplus with the U.S. of at least $20 billion over a 12-month period,
- Existence of a material current account surplus of at least 2% of GDP over a 12-month period, and
- Evidence of persistent, one-sided intervention on the foreign currency markets in at least six out of the past 12 months, comprising net purchases of at least 2% of GDP over the last 12-month period.

[2] Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States, U.S. Department of the Treasury Office of International Affairs, April 2021
[3] Remarks by President Biden in Address to a Joint Session of Congress | The White House

What does the new Administration's agenda mean for Swiss companies?

Nearly a year into the new Administration, its policy agenda has begun to take shape. As the heightened focus on higher taxes and enforcement suggest, the principles underlying this agenda pose opportunities as well as challenges for Swiss companies operating in the U.S.

What follows is a high-level overview of this Administration's major legislative priorities.

Key principles

Recovery from COVID-19 crisis

American Rescue Plan Act signed by President Biden in 2021. The law calls for a coordinated federal response based on science and includes funding and guidance to help states, cities, companies and schools respond to the pandemic. It provides extra help to students, small businesses, the elderly and minority populations.

Encouraging production and consumption of American goods

Definition of new standards for being a federal supplier and new forms of federal assistance/incentives to encourage investment in American industry. It focuses on reshoring/rebuilding critical parts of supply chains to increase the share of products made in America. It also calls for an increase in the hourly minimum wage from $7.25 to $15.

Boosting innovation

Calls for greater investment in R&D and breakthrough technologies – from electric vehicles and lightweight materials to 5G and artificial intelligence – over the next four years. The objective is to restore the R&D world leadership America has partially ceded to China by increasing the share of funding by the federal government. (That funding currently represents only 0.7% of GDP. In the 1960s, America invested 2% of GDP.)

Fighting climate change

The U.S. rejoined the Paris Climate Agreement in February 2021 and defined further actions aimed at creating a 100% clean energy economy by 2050. The plan focuses on creating high-paid jobs in clean energy, securing domestic supply chains, supporting clean public transit, upgrading buildings and constructing sustainable housing, achieving a carbon-free power sector and supporting communities.

Strengthening foreign trade

Supporting free trade as a way for the U.S. to lead on the global stage while protecting American farmers and workers and boosting exports. The primary focus is reshaping trade relations with China. The new Administration aims to go beyond the "phase one" trade agreements signed under the previous President.

Reshaping healthcare system

Reinforcing some of the policy changes introduced by previous Administration. Moreover, new measures have been proposed, aimed at reducing prescription drug prices. Key pillars include direct negotiation of drug prices with manufacturers, independent review of launch pricing (including external reference pricing), drug importation (if considered safe) and inflation-limited price increases.

Increasing access to work and education

New policies related to immigration, along with education and affordable housing policies. The new Administration's goal is to increase equity across the nation.

Funding national investments

Proposal to reform corporate and individual taxes – including raising the corporate tax rate from 21% to 28% and expanding the Social Security tax of 12.4% to cover earnings over $400,000. The goal: to fund the investments proposed within the American Jobs Plan and the American Families Plan.

Source: White House.gov. Fact Sheet: The American Jobs Plan; White House.gov. Fact Sheet American Families Plan; Joebiden.com; press release

A trio of economic proposals: One down, two to go?

The new Administration was initially advocating for three powerful legislative packages. The first – the American Rescue Plan – is already in force. In spring 2021, the new Administration proposed the American Jobs Plan and the American Families Plan. However, negotiation with the Republican Party is driving a different structure and scope. The Senate passed a Bipartisan Infrastructure Plan (representing $1.2 trillion in spending). It includes parts of the initial American Jobs Plan. As of this writing, the bill still must go through approval in the House of Representatives. Moreover, major parts of the American Families Plan, along with some sidelined pieces of the American Jobs Plan, are meant to be embedded in a $3.5 trillion reconciliation bill. The negotiation and approval process for those policy elements are still underway.

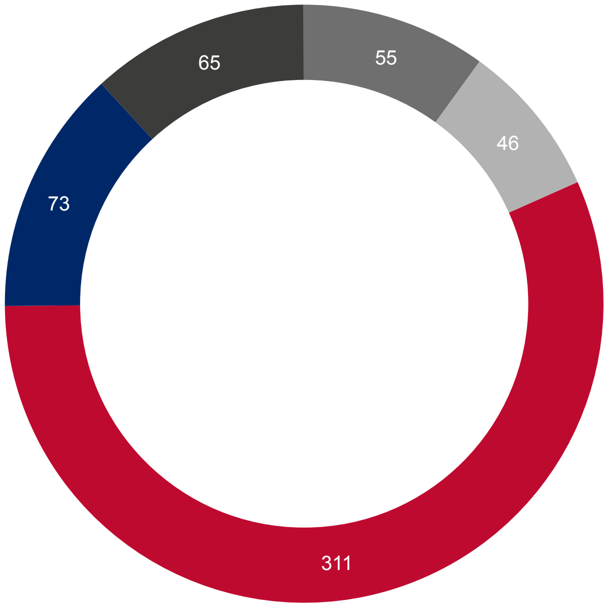
	American rescue plan	American jobs plan		American families plan
Government initial proposal	**$1.9 trillion coronavirus rescue package**	Spend **$2.3 trillion on U.S. infrastructure over eight years**. It would spend large sums on physical infrastructure.		Spend **$1.8 trillion with** focus on supporting millions of American families by investing in childcare, universal pre-kindergarten and paid family and medical leave.
How it is most likely implemented	**$1.9 trillion coronavirus rescue package** designed to facilitate the United States' recovery from the devastating economic and health effects of the COVID-19 pandemic. It includes direct stimulus, extending unemployment compensation, continuing eviction and foreclosure moratoriums, and increasing the Child Tax Credit.	**$1.2 trillion Bipartisan Infrastructure Plan** The $1.2 trillion package contains $550 billion in new spending, including the largest federal investments ever made in public transit, rail service and clean drinking water infrastructure.	**$3.5 trillion Budget Reconciliation Bill** This budget is expected to contain some of the pieces that were left out of the Bipartisan Infrastructure Plan — including investments in housing and education; childcare; research and development; manufacturing; clean energy, and big pieces of the proposed American Families Plan.	
Status and outlook	**In force**	**Passed Senate – needs to pass House**	**Under review – needs to pass House and Senate**	

Source: press release, Swiss Amcham analysis

Focus on the Bipartisan Infrastructure Plan

The $1.2 trillion package, already approved in the Senate, contains $550 billion in new spending, including the largest federal investments ever made in public transit, rail service and clean drinking water infrastructure.

Bipartisan Infrastructure Plan new spending breakdown ($B)



What's included in the Bipartisan Infrastructure Plan

Focus	Goals and proposals
Roads, Bridges, Transportation	Provides new funding for grants to improve bridges, roads and other traditional infrastructure. Funds deployment of EV chargers along highway corridors to facilitate long-distance travel. Reauthorizes the surface transportation program for the next five years. Provides funds to modernize mass transit and improve accessibility. Funds airport and port improvements. Provides funding for the Amtrak National Network to reduce maintenance backlog. Helps schools purchase electric (or low-emission) buses.
Power Grid	Includes the bipartisan Energy Infrastructure Act, which funds grid reliability and resilience, critical minerals and supply chains for clean energy technology, critical energy technologies like carbon capture, hydrogen, direct air capture and energy efficiency.
Broadband	Increases state broadband deployment grants. Supports middle-mile deployment efforts. Includes the Digital Equity Act, which would create a permanent program to help low-income households access the Internet and obtain devices for doing so.
Water	Funds replacement of lead pipes and service lines to address dangerous per- and polyfluoroalkyl substances (PFAS). Provides $1.8 billion for the Indian Health Service Sanitation Facilities Construction program.
Resilience	Invests in flood mitigation, wildfire prevention and restoration, and drought-related activities. Provides funding for cybersecurity initiatives to address critical infrastructure needs.

Source: Whitehouse.gov; press release

How will the plans be funded?

In conjunction with the American Jobs Plan (which evolved into the Bipartisan Infrastructure Plan), the Administration proposed the Made in America Tax Plan, which would raise over $2 trillion over the next 15 years. The central goal of Made in America is to make American companies and workers more competitive by eliminating incentives to offshore investment, substantially reducing profit shifting, countering tax competition on corporate rates and providing tax preferences for clean energy production. Importantly, this tax plan would generate new funding to pay for a sustained increase in investments in infrastructure, research and support for manufacturing – fully paying for the investments in the American Jobs Plan over a 15-year period and continuing to generate revenue on a permanent basis.

Corporate tax rate	• Increases the federal corporate tax rate from 21% to 28%, close to its 21st-century average prior to the Tax Cuts and Jobs Act of 2017.
End the "race to the bottom" around the world (Replace BEAT)	• Seeks to replace Base Erosion Anti-Abuse Tax (BEAT) with a global minimum tax and deny deductions for payments to low-tax jurisdictions. • Encourages other countries to adopt strong minimum taxes on corporations, so foreign corporations aren't advantaged, and foreign countries don't get a competitive edge by serving as tax havens. • Replaces BEAT with a more effective system to discourage earnings stripping/profit shifting; reinforces U.S.'s commitment to the OECD's proposed global minimum tax.
Discourage offshoring by strengthening global minimum tax (GILTI) for U.S. multinational corporations	• Seeks to increase the GILTI minimum tax rate from 10.5% to 21% and require country-by-country, rather than blended, worldwide calculations. • Eliminates the exclusion for a deemed return equal to 10% of a company's qualified business asset investment (QBAI), which "allows U.S. companies to pay zero taxes on the first 10% of return when they locate investments in foreign countries."
Repeal the Foreign Derived Intangible Income (FDII) deduction	• Eliminates tax breaks for companies investing in R&D in the USA or reshoring R&D activities to the USA. Revenues gained from repealing the FDII deduction might be used to expand other R&D investment incentives.
Corporate inversions	• Proposes making it harder for U.S. corporations to invert, providing a backstop to other reforms, which should address incentives to do so in the first place.
Deny companies expense deductions for offshoring jobs and credit expenses for onshoring	• Makes sure that companies can no longer write off expenses that come from offshoring jobs. • Provides a tax credit to support onshoring jobs.
Enact a minimum tax on large corporations' book income	• Backstop against the tax plan's further reforms by creating 15% minimum tax on income that corporations use to report their profits to investors (aka "book income"). • Ensures that large, profitable corporations cannot exploit loopholes in the tax code to avoid paying U.S. corporate taxes.
Eliminate tax preferences for fossil fuels and make sure polluting industries pay for environmental cleanup	• Eliminates all subsidies, loopholes and special foreign tax credits for the fossil fuel industry. • Restores payments from polluters into the Superfund Trust Fund. • Supports the President's commitment to put the country on a path to net zero emissions by 2050.
Ramping up enforcement against corporations	• Invests in enforcement to ensure corporations pay their fair share. • Ensures the IRS has the resources needed to enforce tax laws against corporations.

Source: Taxfoundation, Swiss Amcham analysis

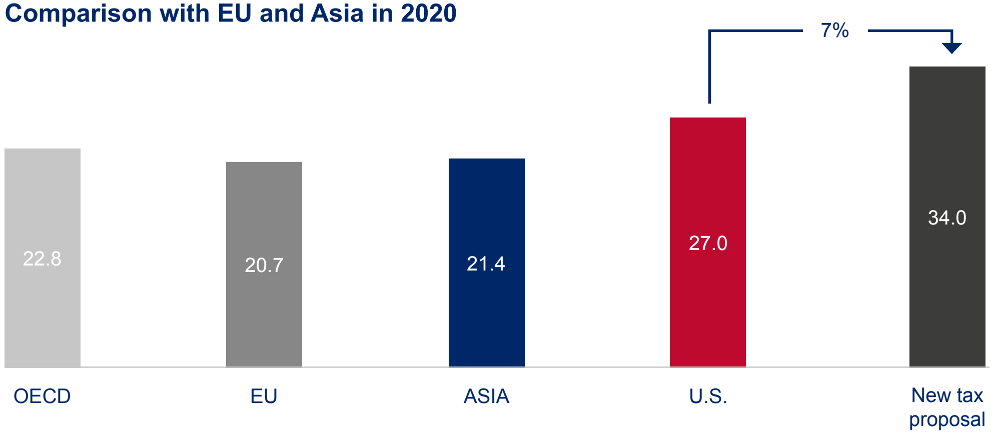
The proposed tax plans would lift the U.S. corporate tax rate 12% higher than the OECD average

In 2020, the U.S. had a federal corporate tax rate of 21% and an additional 6% on average in state and local taxes, resulting in a combined rate of 27%. In the EU and Asia, tax-rate differences were negligible, with all at approximately 21%. If Congress enacts the proposed legislation, the U.S. corporate tax rate will be about 13% higher than those of countries in the EU and Asia.

Even though the federal rate has been trending downward from more than 50% in the 1960s, historic data shows that the U.S. total corporate tax rate has never been as low as that of Asia, the EU or the OECD average.

Corporate tax rate by region (%)

Comparison with EU and Asia in 2020

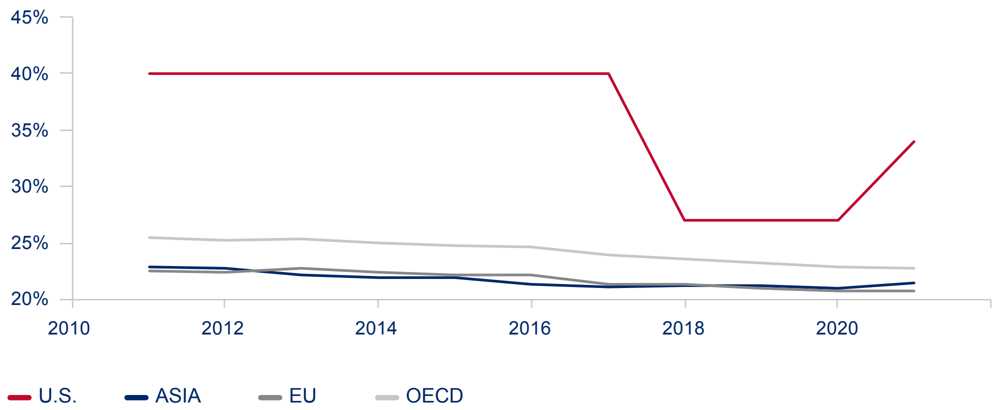


The path forward

The Bipartisan Infrastructure Plan (BIP), the reconciliation bill and the tax plan need to pass the House and Senate before they are sent to the President for final signature and become law to be implemented.

While the infrastructure deal has bipartisan and bicameral support, its final passage may hinge on the passage of a partisan reconciliation bill. With the details and timing of the $3.5 trillion reconciliation bill unresolved, there might be pressure to advance the BID with the budget resolution before receiving a reconciliation bill from the Senate.

A look back over the last decade:



Source: OECD, Corporate Tax Statistics; Taxfoundation; Swiss Amcham analysis

Preparing for potential change

While Congress has yet to pass all the sweeping economic proposals, the plans reveal the Administration's agenda and priorities.

Given the strong ties between Swiss companies and the U.S. – and potential impacts of the new government economic agenda – the Swiss-American Chamber of Commerce conducted interviews, supported by Accenture Research, with more than 40 Swiss companies' executives who have responsibility for their U.S. operations.

The leaders interviewed represent companies operating in eight industries that manufacture in the U.S., as well as those that only export to and sell in the U.S. In 2020 alone, these companies generated more than $72 billion revenues in the U.S., and employ over 120,000 people in the country.

The goal: to gather insights about their business strategy in the U.S., how they are doing business in the U.S., potential effects of the latest economic agenda and potential impacts on international operations.

The analysis reveals important insights about Swiss companies' outlook for the U.S. What follows is a closer look at our findings, including some quotes from the executives we interviewed.

40+

Swiss companies interviewed which export or directly operate in the U.S. in 8 different industries

$72+ BILLION

Revenues generated in the U.S. in 2020 by Swiss companies interviewed

120,000+

People directly employed in the U.S. by Swiss companies interviewed

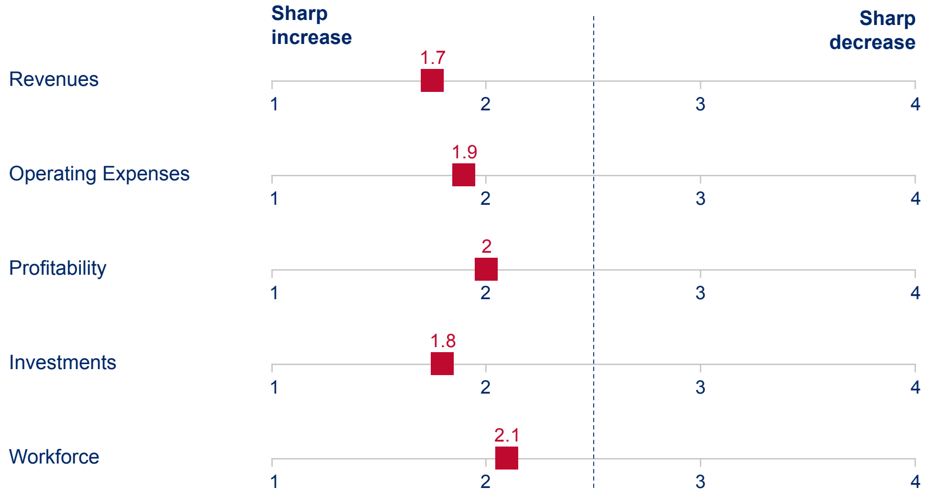
22.5%

Share of 2020 U.S. revenues on global revenues of the Swiss companies interviewed

Faith in the future

The interviews revealed that most Swiss companies are optimistic about their prospects in the U.S. over the next three to five years. Nearly all executives expect a moderate increase in their key financials, including revenue, capital expenditures and workforce. Most also expect operating expenses to increase – and profit to be squeezed – because of their own expansion strategies as well as the rising cost of doing business. As a result, companies reported increasing their automation efforts in order to respond effectively to the post-COVID rebound and reduce operating expenses in the medium term.

Financial outlook over the next three to five years



1 Sharp increase
2 Moderate increase
3 Moderate decrease
4 Sharp decrease
N = 43

Source: Swiss Amcham interviews to Swiss companies' executives. May – June 2021

Favorable view of U.S. as place to do business

Swiss executives consider American society as open minded and business friendly – a dynamic, fast-paced environment with enormous potential for growth. In short, they see the U.S. as an attractive place to do business.

“The U.S. is still the largest market in the world, and with that comes a lot of purchasing power. This is important as [my company] positions itself in the above-average and expensive segments.”

Swiss business leaders lauded the governance and compliance environment in the U.S., noting that it is stable and relatively easy to manage. The only exception is state-by-state variation, which can complicate compliance management. They experience governmental intervention as “light” or even nonexistent. At the state and federal levels, U.S. government does not impede Swiss businesses from generating profit.

Swiss businesses view U.S.-based customers as pragmatic and loyal but also interactive and open to change. They consider American business culture to be open and entrepreneurial and believe a “can-do” attitude infuses all aspects of doing business.

“The U.S. is a very attractive market and players are very open – a marked difference from Europe, where only price and terms and conditions are discussed. U.S. partners talk much more comprehensively about the business – whether focusing on innovation or positioning.”

Bring it on: Swiss businesses welcome some aspects of U.S. economic agenda

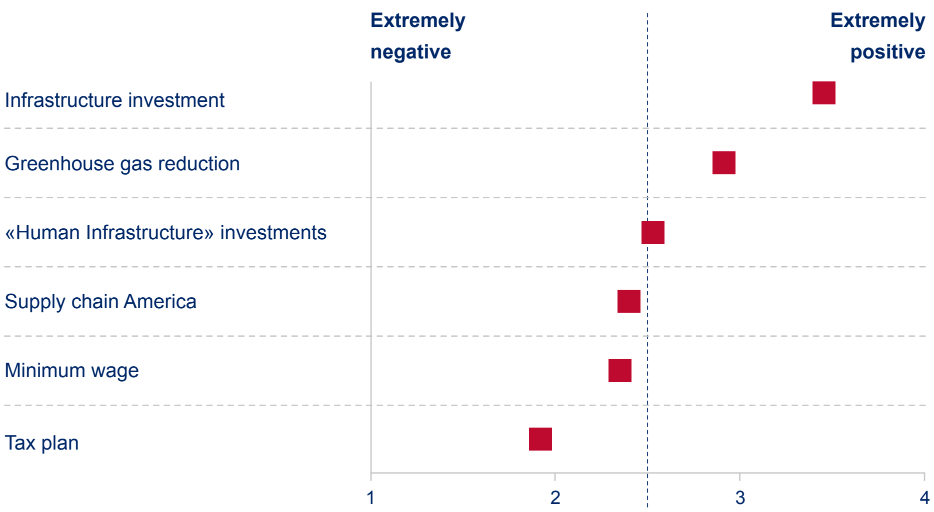
Some recurring themes emerged in our interviews with 40+ Swiss business leaders. For one thing, Swiss businesses operating in the U.S. believe they are already well positioned to address several key tenets of the new administration's economic agenda – including raising the minimum wage, reducing greenhouse gas emissions and shifting more production to the U.S.

In general, they welcome the improvements in local transportation and logistics capabilities that should result from massive infrastructure investments. For those that actively participate in related sectors, there is some trepidation about ability to scale at the needed speed and with the expected level of quality. On other issues, including investments in higher education, these leaders envision long-term benefits for the social fabric of the U.S. but see less short-term payoff for their own enterprises, which typically need specialized blue-collar workers.

Alongside those positive views, respondents voiced concerns about a key aspect of all the legislation: how to pay for it. Executives expressed some uncertainty about how tax policy changes could impact their profitability in the U.S. They also worry about whether and to what extent U.S. corporate tax reforms might be adopted more broadly, causing a domino effect around the world that could constrain profitability and leave less capital for future growth and innovation.

In the next few pages we take a closer look at our findings and discuss each of these topics in more detail.

Swiss companies' evaluation of U.S. proposed economic policies (1 – 4 scale)



N = 43

Source: Swiss Amcham interviews to Swiss companies' executives. May – June 2021

Infrastructure investments: Positive sentiments, some concerns about scalability

Swiss business leaders anticipate mostly favorable direct and indirect effects from the infrastructure program.

Businesses in the engineering, logistics and transportation, and resources sectors see a concrete opportunity to increase their profitability as their clients receive funding at the local and federal levels. At the same time, they anticipate that the program will impact their entire supply chain, which could expose vulnerability in terms of on-time delivery, quantities of materials and attention to quality. They also want to ensure that they make the right investments to optimize capacity and maximize the benefits of participating in the program.

“The program is so massive that there are real concerns whether suppliers can deliver 10 times the usual quantities on time and with the necessary quality. It is possible that our business could grow but not make money, or worse, once the program ends, there’s a price war due to massive overcapacity. That could lead to years of losses and consolidation.”

Across sectors, Swiss companies view infrastructure improvements as plusses for their organizations. From better digital, electrical and communication infrastructure to updated roads, these federal investments are expected to yield benefits in the form of lower costs and higher reliability.

“We hope there will be fewer electricity blackouts – events that are very disruptive both to our business and throughout our supply chain. Better roads should hopefully lower transportation expenses and driving timing.”

Overall, Swiss companies view the U.S.’s planned infrastructure improvements as much needed; some may even plan additional investments based on progress in updating these resources.

Greenhouse gas reduction: Source of competitive advantage?

The government agenda to reduce greenhouse gases is welcomed by Swiss businesses.

Respondents indicated that this initiative will not affect their businesses directly. Almost every Swiss company is farther along than the plan requires, and respondents admit their preference for having their own program and not being dependent on Administration changes. Further, Swiss companies expect that broader entry into the "green game" will sharpen their competitive edge. They look forward to opportunities to offer green solutions to their customers, new business prospects, and gains in market share.

"The need for action on climate change is becoming more urgent than ever. Our business has made strong 2030 sustainability commitments. Our key goals are to partner with our customers and suppliers to reduce their emissions and to achieve carbon neutrality in our own operations by 2030. We've set ourselves the ambitious target of helping customers to reduce their annual CO_2 emissions by more than 100 megatons by 2030."

"Clients who want to stay compliant with their emissions will have to invest in ecologically advanced solutions, giving us opportunities to succeed."

“Human infrastructure” investments: Unlikely to widen talent pool

Swiss companies consider plans to increase opportunities for people to pursue college educations and for women to participate in the workforce to be socially positive for the long term.

“The hope is that such initiatives will reduce social unrest, which will indirectly benefit companies. That is long-term positive, and our company does not expect to see any short- or medium-term benefits from it.”

Several companies operating in different industries raised concerns about indirect effects that this investment – for instance, offering two years of free community college – may have over the long term. Some suggested that greater access to college would further reduce the pool of people opting to pursue apprenticeships and on-the-job experience. Another area of concern is that the program will drive new tax policies designed to cover its costs.

“The program needs to be financed, and those potential monetary consequences make this program slightly negative.”

Some respondents expressed concern that these “human infrastructure” investments will not bring significant change where they need it most: expanding the talent pool. They expect the program to help increase education among the American public but do not anticipate that it will help them in filling blue-collar and other positions that require highly specialized skills.

Indeed, talent recruitment and retention emerged as one of the greatest barriers for Swiss companies operating in the U.S. They reported real challenges in finding educated, well-skilled employees. In the past they would look to Canada or Mexico to fill talent gaps, but the pandemic has made that difficult or impossible. Even once they find talent in the U.S., employees usually require additional training.

“Finding staff – especially those with technical skills but not engineers – is not easy. There is quite a shortage, leading to fierce competition that puts a great deal of pressure on our business. Finding qualified workers in Mexico and Canada is much easier, which leads us to occasionally consider increasing our activities in those countries over the U.S.”

In addition to finding talent, Swiss companies are challenged to retain employees. With salary apparently the most important factor in choosing an employer, American workers are not loyal. Frequent job changes fuel high turnover rates and poor return on HR investment. The U.S. also brings additional litigation costs and risks associated with former employees suing following their dismissal.

What can the U.S. learn from Switzerland?

For a closer look at potential strategies for closing the talent gap, see Jobs Now: Swiss-Style Vocational Education and Training, a report published by the Swiss-American Chamber of Commerce in collaboration with Accenture.

Numerous studies have shown the return on vocational education and training (VET) investments – an approach long embraced by Swiss companies. These programs could be beneficial in the U.S., which faces a huge challenge to meet the demand for skills in “middle skilled” jobs that require post-secondary education but not a four-year college degree.

Apprenticeships are beneficial to both employers and employees. Workers learn a combination of knowledge, skills and attitudes, can start a professional career without the burden of debt, and have access to effective career counseling from a young age. For employers, apprenticeships can serve as a trial period for getting acquainted with prospective employees. When hiring apprentices, employers can have greater confidence that they’re well suited to their positions, saving additional recruitment costs. In short, companies earn back their training costs (often more) and gain access to skilled workers who already know their processes and might feel enough loyalty to stay.

There is opportunity for Switzerland and the United States to collaborate on VET. In fact, there have already been efforts by the U.S. Embassy in Bern to promote exchange among multinational companies operating in both countries. Moreover, Switzerland and the U.S. signed Memoranda of Understanding in 2015 and 2018 with the objective of increasing collaboration in workforce development. Apprenticeships have a central role.

Supply chain: "Already there" for some, but not all

Swiss business leaders are split when considering the supply chain priorities within the American Jobs Act – namely, that more goods be produced by American workers within the U.S. For many, this aspect of the government agenda aligns with their own business strategies and is considered good news. Indeed, several companies believe they are already highly competitive in the local U.S. market and better positioned vis-à-vis their competitors who rely more on international supply chain.

"We have the largest footprint of all competitors in the U.S., and there is no real alternative U.S. manufacturer. Given that, it will depend on the 'fine print' as to what, if any, impact this program will have."

In addition, over a quarter of interviewed companies are looking to increase their local presence. Companies have been actively seeking local suppliers, including moving part of their business to the U.S. in a quest for higher customer trust and satisfaction. However, this cannot be done overnight and is leading many companies to increase inventory level to absorb potential supply chain disruption. Often, these shifts are a result of lessons learned through the COVID-19 pandemic.

"Due to the learnings of the pandemic, we decided to move much more to a model where local production is done for local sales."

"We aim to increase our footprint and thereby distribute supply chain risk more globally and reduce our dependency on China."

"We are currently looking into backup suppliers so that the company can switch suppliers if/when needed, ideally from Chinese suppliers to domestic ones. As that shift must be done quite carefully to not disrupt currently working supply chains, this process will take some time, so we started increasing our inventory levels in the U.S."

A natural consequence of these actions is that the price of products is likely to increase, as the higher cost is passed along the supply chain.

However, around one third of the companies shared concerns as the push for more sourcing to the U.S. is considered impossible or very challenging because it would be too costly to do so, or due to a lack of access to specific materials or products that cannot be sourced in the U.S. in the desired quantity or with the right level of technological sophistication.

"Some raw materials cannot be sourced in the U.S. as they don't exist in the U.S., or, even worse, they cost so much more."

Some companies operating in specific sectors said they would even be willing to incur extra duty costs to maintain their current global supply chain; they do not want to be exposed to product quality issues that a transition to new suppliers can cause.

"A key aspect one cannot mention too much is that reliability and quality must be maintained on a very high level. That cannot be achieved only by sticking to U.S. supply chains. Otherwise, certain products suddenly are no longer available – or they get so expensive that it is a loss for our customers."

Finally, few businesses, see themselves as unaffected because their products would not be considered "critical goods" within the plan.

Minimum wage reform: "We're already there"

Swiss business leaders are largely positive about this priority. After all, most of these businesses' employees either already earn more than the new minimum the program would enact or belong to trade unions that previously negotiated higher hourly wages.

"There is no impact as the minimum wage we pay is already higher than $15 an hour – especially in California. However, this reform has a lot of signaling effects to lower social unrest. From that perspective, we hope that this change could indirectly lower costs of doing business in the U.S."

They see mostly upside in the form of improved public sentiment and greater consumption by households benefiting from the reform, and they anticipate potential advantage over competitors who will be forced to pay higher wages than they have in the past.

"This is actually a positive reform in that it increases the cost structure of our competitors who historically have been paying less over the years. It also limits the competitors' flexibility."

However, a few companies indicate potential consequences of this reform in relation to the gap between the federal and state minimum wage. Some C-level executives are concerned that the increase in the federal minimum wage will have a domino effect, with minimum wage increases in states that already set their minimum above $15 per hour but want to maintain the gap with the new federal standard.

Similarly, according to some respondents, the minimum wage increase may necessitate an across-the-board increase in all company wage levels to ensure an adequate wage gap between different levels of employment.

"The program is not impacting our company too much – but we may be impacted by the various state laws, especially if the states want to maintain their relative difference to the federal minimum wage and will also hike their state-wide minimum wage levels."

To respond to these risks, several companies are looking at different actions. The most cited is the increased use of automation to cover staff shortages and optimize the costs base. Fewer are even considering shifting some portion of their production abroad.

"The reform itself is quite a disadvantage for many industries. For our company, it will impact a small fraction of the temporary workers, as most temps actually earn more than $15 per hour. As a consequence, a certain percentage, of our production would be shifted abroad."

Concerns about the new Administration's tax plan

While over one third of the respondents acknowledge that dealing with tax changes is part of doing business, they are less positive about the new Administration's Made in America tax plan. Raising taxes is generally seen as negative.

"Obviously, higher taxes are always negative, but over the past 40 years, the company has seen ups and downs in taxes. We are used to dealing with this."

Not surprisingly, Swiss executives are concerned about how higher U.S. taxes will increase their cost of doing business. For example, they may have to make changes to their supply chains to enable more U.S.-based production. That may involve the additional expense of engaging consulting companies to investigate such shifts.

"We've engaged a consulting company for a large project where the consultant is looking into whether part of our manufacturing could be done in the U.S. This would reduce the need to ship these materials to the U.S. and would leave only the production of ingredients – concentrates with much lower weight and volume – in Switzerland."

Higher operating costs will leave less budget for making other investments, such as brand building, product development and distribution, and could force changes to strategy. Businesses may also have to reformulate some business policies, which can reduce their ability to respond to changing market conditions. In addition to those cost concerns, Swiss executives worry about how short-term changes could lead to longer-term impacts. There is some uncertainty about future program development and the potential need to provide full tax transparency in order to operate safely in the U.S.

"The minimum tax discussion doesn't impact our business yet. The fear is that it could lead to requirements for full transparency around where you pay taxes and how much you pay, or you will be cut off from the U.S. or face significant disadvantages that make your business unprofitable."

At the same time, Swiss companies indicated that they are taking some steps to plan for possible impacts. These include working on scenario planning to envision detailed effects of potential tax changes.

"We will shape our distribution setup and adjust our legal setup – especially our transfer pricing scheme. The splitting and allocation of value will be tilted toward non-U.S. entities to the extent possible. Our business uses consultants extensively to optimize that angle."

Other tactics include relocating parts of their operations outside the U.S. and even within – moving from one state to another in search of greater flexibility – and planning price increases to pass the effect of the tax increase on to customers.

"We are looking into if and how to change the local footprint in the U.S. from one state to another one, based on the openness and support of local authorities."

Three areas of action

The interviews suggest that as the new Administration's agenda takes shape, companies will need to act in these three areas to maintain or increase success in the U.S.:

Improve supply chain risk management

Economic policies underway not only in the U.S. but also in other countries highlight a growing trend toward de-globalization.

In the wake of the pandemic, supply chain resilience is becoming more important than supply chain efficiency.

Companies need to embrace new, more sophisticated assessments of supply chain risks and build a proactive, long-term supply chain resilience capability.

Increase productivity

Potential increases in tax rates will drive up costs and impact profitability.

Companies may counterbalance this effect by increasing productivity – including doubling down on automation efforts.

Expand apprenticeship programs

The lack of skilled workers is the top concern for Swiss companies operating in the U.S.

Some have successfully collaborated with local community colleges and state governments to implement apprenticeship programs.

Companies should continue forging collaborative relationships with local governments, school districts and community colleges in order to expand these programs.

We would like to thank all the companies interviewed for providing their time and insights, which helped us to enrich the report.

Companies interviewed (alphabetic order):

ABB
Bachem
Belimo
Bossard
Breitling
Brugg
Bühler
Burckhardt Compression
Bystronic Laser
Clariant
Coltene
Dätwyler
Emmi Management
EMS-CHEMIE
Endress+Hauser Flowtec
Firmenich
Franke
Huber + Suhner
Kistler Instrumente
Komax
Kudelski
Kuehne + Nagel
LafargeHolcim
Logitech
Lonza
maxon motor
Mikron
Novartis
Rehau Verwaltungszentrale
Ricola
Rieter
Roche
Schindler
SFS intec
SIG Combibloc
Sika
Similasan
Sonova
Stadler Rail
Swiss International Air Lines
Swiss Krono
Thermoplan
Weidmann

Author

Martin Naville

CEO of the Swiss-American Chamber of Commerce

Martin M. Naville is CEO of the Swiss-American Chamber of Commerce, a leading business association with 1,700 business members (Swiss and American companies) facilitating business between Switzerland and the U.S.. The Chamber is also the spokesperson for multinational companies based in Switzerland – large and small, Swiss and foreign.

Before taking over Swiss Amcham in October 2004, Martin Naville spent 16 years with Boston Consulting Group in Munich, Zurich and New York. In 1995, he was elected Partner and Director of Boston Consulting Group. At BCG, he specialized in the fields of Wealth Management and Telecommunications. Martin Naville started his professional career in 1984 as a corporate banker with JP Morgan in Zurich and New York.

Martin Naville holds a Master of Law from the University of Zurich. He has been Chairman of the Board of Zurich Zoo since 2004. He is also a member of the Board of Directors of Swissquote, the Swiss leader in online trading, Senior Advisor of Morgan Stanley (Switzerland), President of Komitee Weltoffenes Zürich and a member of the Global Advisory Board at ETH Zurich, a global top 10 university.

Mr. Naville is married with two adult sons. They live in Küsnacht near Zurich.

About Swiss Amcham

The Swiss-American Chamber of Commerce plays a vital and active role in assisting Swiss companies in the United States and U.S. companies in Switzerland to expand their business. The Swiss-American Chamber of Commerce is a not-for-profit organization. The Chamber promotes and facilitates better business relations between the U.S. and Switzerland and provides essential information about doing business in these markets. Swiss Amcham brings business leaders together to facilitate contacts and to provide platforms for networking in both countries. It represents the mutual interests of members and takes action to further their interests, and also facilitates the mobility of member firms and their employees. Furthermore, Swiss Amcham promotes both countries as advantageous places to do business and fosters good corporate citizenship to benefit the communities in which members do business.

www.amcham.ch

Disclaimer

In creating this report, the Swiss-American Chamber of Commerce engaged Accenture Research to survey Swiss companies operating as exporters or direct investors in the U.S. The goal was to better understand their opinions about the ease of doing business in the U.S. and the opportunities and risks they foresee for their companies in the next three to five years. While this report draws on work conducted by Accenture Research, the views and recommendations expressed in it are solely those of the Swiss-American Chamber of Commerce.