Martin Naville – CEO, Swiss-American Chamber of Commerce



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In a wide-ranging conversation, Martin Naville of AmCham Switzerland looks at the evolution of the Switzerland-US trade relationship and the importance of pharma within it, the pressing need for a free trade agreement between the two countries, and why Switzerland needs to "wake up" to remain globally competitive.

The Trump administration in the US has been extremely vocal on trade imbalances and on pharma over the last four years, how has this affected the US-Swiss trading relationship?

There are always two sides to every story. Here in Europe we only hear the CNN side, which positions Trump as against trade, rather than the Fox News side. Truth is always in the middle. Trump loves trade but detests trade that is not reciprocal and not balanced. Why should he accept China prohibiting Amazon but allow TikTok or Alibaba into the US? He hates that Europe has 50 percent higher duties than America and that China has 300 percent higher duties measured over the entire trade basket.

He declared NAFTA to be unbalanced and renegotiated it into the United States–Mexico–Canada Agreement (USMCA). Overall, Trump is in favour of trade. This is borne out by the numbers: Switzerland has done even better during the Trump years. The country has seen exports grow by

more than ten percent on average every year since the Clinton Administration, 16 years with Democrats in the White House, 12 years with the Republicans. The Swiss-American relationship in terms of trade and foreign direct investment (FDI) is growing extremely well in both directions. Basically, every Swiss company with the ability and opportunity to invest in America is doing so.

What has been the effect of the 'Made in America' campaign on Swiss trade with the US?

'Made in America' does not necessarily mean 'Made by an American company' contrary to 'Made in China', for example. Swiss companies are the seventh largest foreign direct investor in the US and they are in a good position to comply with the demand to produce in the USA. It has perhaps even been an advantage for Switzerland which has historically invested more in the US than most of its competitors; for example, Germany's economy is ten times the size of Switzerland's but has similar levels of FDI in the US.

What items have been at the top of Swiss American Chamber's agenda in 2019 and 2020?

Firstly, 2019 was a great year with 9.5 percent growth in exports. In Q4 and Q1 2020, the US has become Switzerland's biggest export market, which represents a significant shift from 15 years ago, when Germany was the destination for 27 percent of Swiss exports and the US only nine percent, the same level as Italy and France. In 2019 Switzerland exported more to the US than to France, Italy, UK and Austria combined and twice as much as Brazil, Russia, India and China combined.

There were no major problems in 2019. Top of the agenda was the continued push for a Swiss-USA Free Trade Agreement (FTA), for which we hoped first formal discussions would start in Spring 2020, prior to the COVID-19 pandemic.

Secondly, we advocate for a 0% withholding tax treatment on intra-company dividends. Although, this sounds complicated, it is very important for US companies in Switzerland and Swiss companies in the US. There are only three countries left in Europe, including Switzerland, that still lack such a treatment. Swiss AmCham pushed hard for renegotiation of the taxation treaty between Switzerland and the USA and had high hopes that negotiations could start in Spring 2020, but it has been delayed due to the pandemic.

In general, the goodwill from the US towards Switzerland has been enormous. For example, last year US Secretary of State Mike Pompeo stayed in Switzerland for three days before going to Germany for four hours. Other key leaders such as Secretary of the Treasury Steven Mnuchin, Commerce Secretary Wilbur Ross and Secretary of Education Betsy de Vos have also visited. Last year, Swiss President Maurer visited US President Trump in the White House, the first such visit in history! Trump himself loves Switzerland and has frequently skied here. And with US Ambassador to Switzerland and Liechtenstein, Edward T. McMullen, jr., we are lucky to have a real business man with very strong ties into the White House as a strong bridge between our two countries.

What has been the impact of the COVID-19 pandemic on Swiss-US trade?

The biggest issues have been economic rather than political. Largest among these is logistics, as 80 percent in value of our exports to America go by plane. When far fewer passenger planes are flying, there is less transport capacity and the physical transport of high value goods to America becomes more difficult. The second thing is the mobility of people as it is currently very difficult to send key personnel from Switzerland to America; it is feasible, but complex. This will make Q3 and Q4 of 2020 challenging.

These challenges are temporary, but we do not know how long for. Otherwise, the fundamentals of the business relationship are extremely strong. Swiss companies are well established in the US so, despite these temporary but significant problems, I am very confident about the future of the bilateral relationship. It is also worth noting that Switzerland is the fifth largest destination for American FDI. US companies are clearly number one in Switzerland and bring a lot of know-how, showing that the relationship is on very solid ground.

Why has a trade agreement not yet been reached and what can it bring for smaller Swiss companies beyond giants like Roche and Novartis?

An FTA is really about helping small- and medium-sized companies. For large companies, if there are issues between Switzerland and the USA, they can switch the relevant operations to Germany, Japan, or elsewhere. This is much more difficult for smaller companies. However, I believe that an FTA can also be beneficial for larger firms.

Why do we need it? Firstly, if nobody else had an FTA, it would only be a “nice to have” for Switzerland. The problem is the relative competitiveness. The largest trading partners of the US

such as Canada, Mexico, Japan, South Korea, and Brazil have FTAs. Switzerland does not and we need one to prevent ever being at a competitive disadvantage relative to our biggest competitor in the US, the EU. The UK will most probably get some kind of trade agreement with the US because of the special relationship between the two, as will the EU, especially if Trump gets re-elected.

The risk is that the moment the EU starts to negotiate with the USA, Switzerland will look on from the outside. A Swiss-US FTA would act as an insurance to stop us falling between the cracks. The issue of tariffs is not so serious anymore, but an FTA would be beneficial for small and medium-sized companies in removing non-tariff barriers, aligning categories, processes, and standards, reducing complexity.

Why has a Swiss-US FTA still not been settled on?

14 years ago, Switzerland had exploratory talks regarding an FTA, and Switzerland, because of agriculture, decided not to enter into further negotiations. Switzerland is still the only country in the world to refuse to negotiate an FTA with the US. The highly protected Swiss agriculture sector is still a big question for the US in any potential future negotiations.

There is a widely expressed willingness to discuss a Swiss-US FTA on both sides. In the US, the relevant government entity USTR has been very stretched working on the USMCA, the US-Japan FTA, country embargoes and other issues. Now that the USMCA and Japan FTA are done, there could be a window of opportunity to get a US-Switzerland trade deal done.

Switzerland has slipped down to fourth in the global competitiveness index over the last few years but remains top of the innovation index. How do you assess the resilience of Swiss competitiveness in relation to other global innovation hotspots?

I would not pay too much attention to the difference between rankings one and four in competitiveness, there is such a small difference between these positions as to be unimportant. Our performance holds up well compared to countries like Ireland and the Netherlands.

However, we do have an issue in terms of complacency. A year and a half ago Swiss AmCham published a report with McKinsey, economiesuisse and Swissholdings entitled ‘Switzerland, Wake Up’; 15 years ago Switzerland was a clear leader in location attractiveness. Today Switzerland is still good, but maybe not as great as many people think

I feel good about Switzerland but the hubris here is not reflected in the reality. I often use the analogy that when the sun comes up in Africa, the gazelle knows it has to run to not be eaten. The lion has to start running to catch the gazelle. Regardless of whether Switzerland is the gazelle or the lion, it has to start running. A lot of people in Switzerland have not yet realised that the sun is already up. Switzerland needs to become nimbler, not assume that it is still the best, but instead strive hard to become the best again.

Is the Swiss tax system still a key element in the company's competitiveness?

The idea of Switzerland as a corporate tax haven is an old myth. The country did not appear in The Panama Papers or LuxLeaks and has not participated in extreme tax practices for many years. The dream of moving to Switzerland and not paying taxes does not exist.

Nor is it true that this can be circumvented in specific regions. The tax rate in Zug is 12 percent with five percent withholding tax on top of that, for example. Our value offering is education, workforce, liberal labour laws, working infrastructure, political stability, and quality of life. The price for this attractive environment is costs and tax. As in everything, a very good product needs to have a reasonable price but does not necessarily need to be the cheapest. So reasonable taxes, as practiced in Switzerland, are sufficient to compete.

Is bringing talent into Switzerland from abroad an issue nowadays?

Free movement of people within the EU allows us to bring in a lot of very talented people from EU countries. For non-EU talent, at senior levels it is relatively easy to bring people in, but it gets more difficult with younger talent. The Netherlands and Ireland are better and faster and have special programmes. Currently, it is a growing issue which is why five months ago, Swiss Amcham and Deloitte published a paper calling for much better solutions for young talent.

The fact that Google's second largest research lab outside of the US is located in Zurich, Switzerland, means that despite this issue, the system is somehow working. That campus employs more 4,000 staff, a lot of whom are young people from third countries with limited experience but great brains.

Why does Switzerland move comparatively slowly and who are the forces within the Swiss system that move the needle?

Switzerland is the only country in the world with no head of state. The country has seven federal councils which together function as head of state, coming together as a grand coalition of seven representatives from the four largest parties. Our parliament never takes a final decision because every law can be contested by just one percent of the voters. Even for a law that has 100 percent approval in parliament, 50,000 people can demand public vote. For example, at the end of September, we will vote on whether Switzerland should or should not buy fighter jets.

The Swiss government is therefore not speedy. Business leaders and associations can push for change but the process of moving legislation through parliament and sometimes multiple public votes is lengthy. The recently passed corporate tax reform took 12 years to negotiate and ratify. The good thing is that once something has passed, normally it works.

What are your hopes and expectations for the US-Switzerland relationship in the next few years?

The biggest wish is for an FTA which will give Switzerland confidence and stability and allow even more Swiss companies to do business in the USA Second wish is the 0% withholding tax treatment. Switzerland needs good diplomacy to explain to the US government about the deficit in trade. Trump tends to look at goods, where there is a massive surplus in favour of Switzerland. However, the USA enjoys a massive surplus in services, in taxes paid, in jobs and in R&D expenses relative to Switzerland. So overall, the relationship is very balanced, but needs to be proactively explained.

The future of the relationship between Switzerland and the USA looks bright. Both countries are global leaders in competitiveness and innovation. Both have strong and business friendly legal environments, strong rule of law, strong democracy and strong federalist structures. David and Goliath are and will remain great partners.

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