Association de Banques Privées Suisses
Vereinigung Schweizerischer Privatbanken
Association of Swiss Private Banks

For Stable Relations with the European Union

Presentation by Yves Mirabaud, President of the Association of Swiss Private Banks and Senior Managing Partner, Groupe Mirabaud, Geneva

Under embargo until 16 May 2019, 10 a.m.
Check against delivery

Bern, 16 May 2019

Ladies and Gentlemen,

Much has already been said on the topic I wish to address here today, an issue that is crucial to the continued development of many economic sectors in Switzerland, including the banks present here this morning. Indeed, private wealth management is an export sector, just like chemicals or watchmaking. The capacity of our banks to serve their European clients while maintaining jobs and fiscal revenues in Switzerland depends on good relations between our country and the European Union (EU). A recent study by Avenir Suisse, published in March 2019, shows that bilateral economic relations between Switzerland and the member states of the EU benefit around a million people in Switzerland, or one-sixth to one-fifth of the domestic workforce. This conclusion is corroborated by studies carried out by the OECD in 2016, according to which approximately a quarter of jobs in Switzerland rely on Swiss exports to the European market.

The Importance of Bilateral Relations between Switzerland and the EU

Far from calling for full membership in the EU, Swiss private banks support the bilateral approach accepted 19 years ago by 67.2% of the Swiss electorate. For bilateral negotiations to proceed unimpeded, however, the framework agreement negotiated at length with the EU must be accepted, even if a few questions are left open. Failing that, relations with the EU, like a poorly maintained road, are likely to deteriorate even further. And the EU, despite its challenges, is still our largest commercial partner.

The bilateral agreements with the EU have enabled Switzerland to prosper. Since their signing, in 2002, the economy has chalked up only two trimesters of negative growth, despite a major financial crisis. In international comparison, Swiss GDP has grown at rates above the developed-country average since 2002, in contrast to the period from 1991 to 2001, when it occupied the bottom of the ranking alongside Japan. Although the share of Swiss exports going to Europe fell from 60% to 45% between 2001 and 2017, thanks in large part to accelerating growth in emerging markets, especially in Asia, exports into Europe increased by 60% over the same period, from 84 to 134 billion Swiss francs per year.

Another indication of Switzerland's attractiveness is the tenfold increase in direct foreign investment from the EU that followed the adoption of the bilateral agreements: investment in the form of mergers and new branch offices rose from 90 billion Swiss francs in 2001 to 824 billion in 2017. That level of growth would not have been possible without a corresponding increase in immigration from the EU. The majority of this immigration was highly skilled and thus resulted in minimal displacement of domestic workers, as evidenced by Switzerland's low unemployment rate (which still translates to 100,000 job-seekers nationwide). Several sectors of the Swiss economy, including hotels, restaurants and hospitals, would be unable to function without the 315,000 EU nationals who cross the border each day to work.

Immigration from the EU is also needed to compensate for a low birth rate. Not to mention that, in fields where Switzerland is among the global leaders, we produce too few experts to meet all our companies' needs.

Rather than get bogged down in technical detail, the debate over the framework agreement should therefore strive to take a broader view of our relations with the EU. What is at stake is nothing less than the future of the relationship. In recent years, several popular initiatives have challenged the bilateral approach: the initiative against mass immigration in 2014, the initiative on self-determination in 2018, and the initiative to limit immigration that will be submitted to a vote in 2020 or 2021. This uncertainty is harmful to the economy and needs to be resolved. The framework agreement with the EU is an opportunity to reaffirm our desire to live in harmony with our neighbours.

A Necessary Compromise

By definition, a bilateral approach requires both parties to find common ground. The framework agreement cannot be 100% in Switzerland's favour, or the EU will not agree to it. If it meets 80% of Switzerland's objectives, as the Federal Council states, it is a good deal! A few points could be further clarified, but the EU's refusal to do so should not be seen as grounds to reject the agreement.

Those who believe that we will be in a better position to negotiate after the European elections forget that these may deliver an even more protectionist Parliament, as well as a European Commission that could decide to go back to the drawing board. Additionally, regardless of the outcome of the Brexit, the EU will have to spend years redefining its relationship with the United Kingdom, during which time it will be unable to make any concessions to Switzerland. The EU member states are remarkably united in their intransigent stance towards the United Kingdom. Switzerland should not expect to be treated differently.

The Swiss people seem to take a much less gloomy view of the agreement than the political class. In a survey of 2,000 Swiss residents commissioned by Interpharma, 60% of respondents stated that they supported the agreement. Even in the Swiss-German region, close to three out of five respondents were in favour of this approach to defining our relations with the EU; the proportion was higher in French-speaking Switzerland and slightly lower in Ticino.

The people surveyed understand that the purpose of the agreement is to guarantee long-term access to the European market, which is in their interest giving the large number of jobs that are directly or indirectly dependent on exports to the EU. Consequently, 64% also stated that they would reject the initiative to limit migration sponsored by the Swiss People's Party and the “Campaign for an Independent and Neutral Switzerland” (ASIN/AUNS), which would bring bilateral negotiations with the EU to an even quicker halt.

Greater Legal Security

Opponents to the framework agreement argue that it would result in a form of subjugation to the EU, which would attempt to impose its rules on Switzerland through the European Court of Justice. It is important to remember that the adoption of European law applies only to areas covered by specific market access agreements. Issues such as land use or tax law would not be affected, and Switzerland remains free to refuse any changes to the free-trade agreement that might move in that direction. Moreover, the bilateral agreements have been amended dozens of times since they were first adopted in 2002, namely in order to adapt Swiss law to European law, without so much as a ripple of opposition.

On the contrary, the framework agreement would allow Switzerland to contribute to the development of European law in selected areas. It would also provide greater legal certainty by defining a clear process for adopting these laws, preserving the right of the Swiss Parliament and people to refuse the proposed changes by way of referendum. In the absence of a framework agreement, the EU is already taking retaliatory measures with no controls and no connection to market access; among others, it has refused to recognise the equivalence of the Swiss stock exchange, to keep funding ten Swiss humanitarian NGOs, and to exempt Swiss steel from customs duties. More importantly, the existing "Agreement on Mutual Recognition in Relation to Conformity Assessment" would no longer be updated, which would impact Swiss exports, starting with therapeutic products. Plus, the electricity agreement, which just a few months ago seemed so essential, would likely fall through. These consequences are far more real and immediate than any sanctions the EU might take against Switzerland seven or eight years down the road if we refused to adopt such and such European rule.

The framework agreement is central to building a peaceful and constructive relationship with the EU going forward. It in no way constrains Switzerland's capacity to adapt its laws to European law, while limiting potential reactions of irritation on the part of our main commercial partner. Rather than worry about hypothetical long-term consequences, we should focus on the immediate impact if the framework agreement is rejected. Without it, the bilateral approach will gradually break down and the Swiss economy will suffer. How will Swiss companies fare without access to the European market and workers? The agreement's opponents fail to provide a satisfactory answer to this question.

A Precondition for Market Access

For the members of our two associations, the framework agreement is also an essential precondition for better access to the European market.

Why is market access so important, not just for our members but also for Switzerland as a whole? Private wealth management accounts for half of the gross revenues of Swiss banks. At least two-thirds of these revenues are sourced from abroad, of which 40% from EU countries. Of the more than 2.5 trillion Swiss francs of private assets deposited with Swiss banks, around 1 trillion belong to residents of the EU. These clients support an estimated 20,000 banking-sector jobs and generate 1.5 billion Swiss francs in tax revenues at the federal and cantonal levels.

You will by now have understood that, for us, market access means access to our clients, which is currently very limited when they do not travel to Switzerland. Unlike Switzerland, most countries have put in place protectionist laws that limit cross-border interactions between financial foreign institutions and their residents. For example, a Swiss banker abroad is prohibited from handing out business cards or talking about the advantages of their bank in more than the most general terms while abroad. If, despite these restrictions, they manage to persuade a client to open an account, the latter must travel to Switzerland to sign the contract. Meanwhile, domestic banks face no such restrictions when prospecting or advising clients. Swiss banks are thus at a clear competitive disadvantage versus their local competitors when they are forced to comply with an entirely different set of rules.

Brexit has impeded the Federal Council's strategy for improving market access. Individual negotiations with EU members are at a standstill, and equivalence procedures (for funds, derivatives and stock exchanges) are becoming increasingly politicised and restrictive. Even when equivalences are recognised, the EU can revoke them at will. Hence, the equivalence procedure does not provide a solid foundation for business development.

That is why private banks are pinning their hopes on a bilateral agreement with the EU. However, they also understand that simply transposing European rules into Swiss law is out of the question. Consequently, the ASB, with the support of all the other banking sector groups, is working on another agreement model, based on a voluntary process that each institution could choose to undertake independently. Banks that wish to serve clients in the EU would be subject to European rules and procedures, while the others would not. In the long term, Switzerland and the EU should nonetheless be able to agree on a mutual recognition of each other's financial service regulations, as is the case already for all sorts of goods.

In the meantime, Swiss banks are being forced to expand their presence abroad rather than at home, resulting in the loss for Switzerland of a large share of the value added, tax revenues and jobs created. Over the last ten years, Swiss private banks have grown their workforce by 20% domestically while nearly doubling it abroad. This example illustrates the vital importance of market access for long-term job-creation in the banking sector in Switzerland.

Thank you for your attention. My colleague Marcel Rohner and I are now at your disposition to answer your questions.