SPECIAL REPORT
EU-SWITZERLAND

IF THE CAP FITS Migration vote puts further strain on relationship
SQUEEZED MIDDLE A gradual loss of support for the centrists
OPEN SECRET? Switzerland is no longer the tax haven of old
MONEY WORRIES Banks seek to hold on to their clients

On the outside, looking in

REUTERS

Switzerland's relationship with the EU is at a crossroads, with the country facing a choice of developing closer ties or greater isolation, writes Toby Vogel

Switzerland's relations with the European Union are extraordinarily broad and deep. Across various policy areas, from the environment to public procurement, Switzerland is applying Union rules and norms, and its laws are checked for compatibility with EU legislation. Last year, three-quarters of Swiss imports of goods came from the EU, while well over half of its exports were sold to the 28 member states. Its booming economy is fuelled by unprecedented levels of immigration from the EU, for the most part highly-skilled professionals.

Relations are so close that Roberto Balzaretti, Switzerland's ambassador to the EU, on occasion has to remind his interlocutors that the country is not a member of the Union. At the same time, Switzerland is the only neighbour whose intimate links with the EU are entirely tailor-made. The country is part of neither the EU's neighbourhood policy nor of the European Economic Area, which provides access to the EU's internal market to the other members of the European Free Trade Area. Nor is it a candidate to join the EU. The Swiss approach to European integration rests on a very delicate foundation of ad-hoc arrangements.

The fragility of the Swiss formula for relations with the EU came into sharp relief in February, when Swiss voters narrowly approved the re-introduction of quotas for immigrants from the EU and defied the provisions of a bilateral agreement dating back to 1999 establishing free movement between the two sides. By rejecting one of the Union's core principles, voters put into question the entire relationship between the two sides.

It is a subject of some debate whether this was actually the intent of the 'Yes' camp, but there is no doubt that this was the effect. However, commentators and officials largely agree that the principle of bilateralism would find majority support among the Swiss today.

The alternatives – close institutional links with the EU or deeper isolation – are profoundly unattractive. "The situation is now coming to a point where we have to decide whether to continue with bilateralism, with all its functionalist tendencies toward greater integration, or shift to the [kind of] Switzerland as imagined by the isolationists," says Georg Kohler, a political philosopher. "I have no doubt that a majority [of voters] does not want to give up on bilateralism."

A moment of truth is now approaching. Switzerland's coalition government has committed itself to outline in June how it believes February's vote should be implemented. The *Neue Zürcher Zeitung* – the most influential German-language daily paper in Switzerland – commented on 30 April that at this stage good diplomacy is simply no longer enough and that a political decision on the way ahead is required. But Switzerland's idiosyncratic political system is not well suited to taking bold decisions on strategic matters.

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REUTERS

IN OR OUT?
Posters in Lausanne ahead of the referendum on immigratio in February.

Time to re-define the relationship?

The EU-Switzerland relationship has been put under increasing strain by a Swiss vote to cap migration from the EU, writes Toby Vogel

Switzerland's relationship with the European Union is far more complex than might be expected of a country that lies geographically at the heart of 'old Europe' and is surrounded by countries whose languages it speaks. The multilingual alpine republic has cultivated extremely close links with the Union that has taken shape around it, yet it has stood proudly apart from what EU leaders often term the 'greatest peace project' in human history.

"The Swiss cannot grasp this peace project," says Katja Gentinetta, a political consultant and co-editor of a book about the challenges to Swiss sovereignty. "Switzerland was not a part of the developments that marked the history of 20th century Europe. Look at the commemorations currently going on across Europe [marking the centenary of the outbreak of the First World War]: Switzerland just wasn't a part of these things."

But, she warns, this is not the whole story. "Switzerland has been cultivating a traditional concept of sovereignty, and it has cultivated a historical narrative that leaves out the continuous strong relationship with the European Union." In other words, Swiss elites crafted a back-story to support them in pursuing their interests – and that back-story was one of strong sovereignty that excluded the possibility of joining the EU (or indeed, until after the Cold War, the United Nations).

From the inauguration of what was to become the EU, Switzerland sought to build close ties without joining, most notably through a free-trade agreement in 1972. That changed in the early 1990s: disoriented by the end of the Cold War and by the gathering momentum of European integration that culminated in the Maastricht treaty of 1992, the Swiss government submitted an application to start accession talks. The dwindling membership of the European Free Trade Association (EFTA) – neighbouring Austria, among other members, was preparing to join the EU – seemed to leave Switzerland with few alternatives to membership.

But the government failed to make its case. As a result, a referendum on whether to join the European Economic Area, which linked EFTA and EU member states, turned into a ballot on EU membership. The government and almost the entire Swiss business community backed membership of the EEA, but muddled its message through the simultaneous application to join the EU. In a traumatic defeat in December 1992, the government lost to an isolationist insurgency led by the rising radical wing of the Swiss People's Party (SVP), headed by Christoph Blocher. The defeat would paralyse the debate about relations with the EU for the next two decades and turned the idea of EU membership into political poison.

"The debate about Europe tended to be about particular dossiers," says Tiana Angelina Moser, leader of the Green-Liberal group in the Swiss parliament. "The debate about fundamentals was always much more difficult because it brings into play emotions about the loss of identity, emotions that were being stirred up by some."

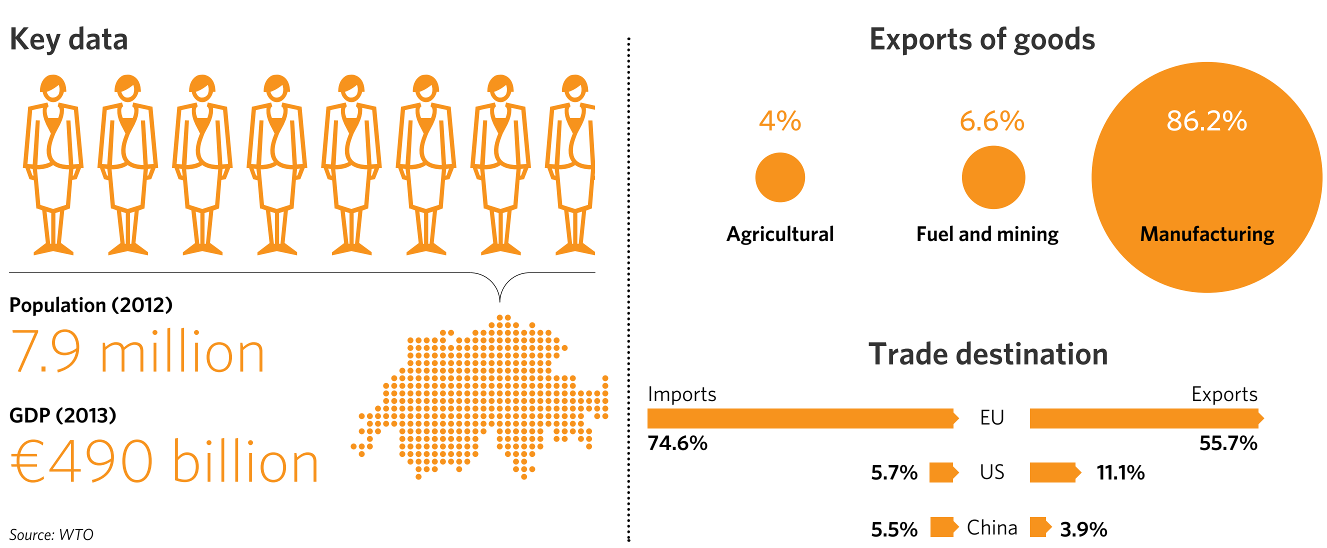
This is the backdrop against which Swiss voters in February narrowly approved the re-introduction of caps on immigration from the EU, a breach of a bilateral agreement on free movement with the EU of 1999 (see below). "The vote of 9 February is the result of the refusal by government, political parties and business leaders since 1992 to discuss relations [with the EU]," says Gentinetta. "They have instead cultivated the illusion that problems solve themselves if you don't talk about them."

Talking about these problems was becoming inevitable, says Moser. "We are socially, culturally and economically incredibly globalised," she says. "We are very closely linked with Europe. In my view, there is really only one option: we are a part of Europe, and we need to re-define our relationship with Europe." The problem with the vote in February, she says, was that the question of Europe became entangled with the emotional issue of immigration.

The Swiss approach of cultivating extremely close links with the EU without deepening the relationship institutionally raises all sorts of questions, both for Switzerland and for the Union.

"The EU is not used to dealing with a political elite that does not want to join," says Georg Kohler, a political philosopher. "It is only slowly that the EU is grasping that Switzerland really does not want to join. I can only recommend to the EU's leadership to try to understand Switzerland, because the problems in the relationship are problems that are also arising in the member states."

Swiss facts in figures



Source: WTO

Isolation v

The vote on 9 February amended the constitution with an article that obliges the government to manage migration through the imposition of quotas for immigrants. The government has pledged to present in June its views about how this amendment can be enacted in Swiss law, and to draft implementing legislation by the end of the year. By February 2017, the new rules must take effect.

Tiana Angelina Moser, a parliamentarian from the small Green-Liberal Party who sits on the foreign-affairs committee, says that a strict interpretation of the constitutional amendment would be "incompatible" with the bilateral agreements and the free movement of people between the EU and Switzerland, a view shared by the European Union. Should the government propose such an interpretation, this "would set in motion a chain reaction that would lead to Switzerland's isolation in Europe, and I don't believe that this is what a majority [of Swiss] wants".

A test of voters' views on isolation v integration is likely in the next few years: if the government wants to propose a looser interpretation of the amendment, which is the only way to prevent the collapse of the existing relationship, it will have to put that interpretation to a popular vote in order to secure its political acceptability. Officials are suggesting that this is likely to take the form of a referendum on Switzerland's bilateral approach to European integration.

Tailor-made but ill-fitting

Referendums in Switzerland and legislative changes in the EU make for a fragile co-operation, writes Andrew Gardner

Switzerland's relationship with the European Union is sometimes described as an example of integration without membership. On the economic side, the integration is evident from the numbers: the EU accounts for most of Switzerland's trade. But if integration implies cohesion, it is hard to apply the word to Switzerland's institutional ties with the EU.

Over time, what has emerged is not a consolidated system, but an ad hoc arrangement built on layers of different agreements. One of the lower layers was laid in 1960, when Switzerland joined the European Free Trade Association (EFTA). Another was added in 1972, when Switzerland struck a free-trade agreement with the EU that remains in place. In 1992, voters scuppered the government's bid to join the European Economic Area (EEA), which gave other members of EFTA – Norway, Iceland, and Liechtenstein – the same access to the European market as EU member states but without the decision-making power.

Since then, Switzerland has sought, in effect, to create the equivalent of EEA membership through bilateral agreements. It agreed one set of bilateral agreements in 1999 and another in 2004. Ostensibly, the 1999 package has seven subsidiary agreements, with nine in the 2004 package. Overall, though, the packages contain a total of more than 100 agreements.

This edifice is fragile. If Switzerland cancels one agreement, it cancels all agreements in that package. While this 'guillotine clause' might seem to create a strong incentive for Switzerland not to pull out, the frequency of referendums in Switzerland increases the chances of the guillotine falling.

There are other problems. One is more theoretical than real: the content of Swiss-EU agreements has not evolved very differently from EEA agreements. The bigger issue is that in many of the areas covered by Switzerland's bilateral agreements, the EU's legislation changes often, requiring frequent amendments to the agreements, a process that absorbs a great deal of parliamentary time in Switzerland and institutional time in the EU. In particular, the EU's waves of enlargement have repeatedly forced Switzerland to re-visit its labour and travel rules, ensuring persistent controversies.

Perhaps last weekend's announcement by Christoph Blocher – the man most responsible for the 'No' votes to Swiss membership of the EEA and of the EU in 1992 – that he will be leaving Switzerland's "bureaucratic" parliament will make it easier for Switzerland to join Norway in the EEA one day (see page 16).

But, for the foreseeable future, the EU is likely to have to console itself that at least this most tailor-made of relationships is very valuable: Switzerland is the EU's fourth-largest trading partner, behind the United States, China and Russia.

REUTERS

BORDER BLUES The Swiss-French border at Ferney Voltaire, near Geneva.

integration

Richard Jones, the EU's ambassador to Switzerland, said at an event at Basel University [29 April] that he saw "no possibility" of respecting both the substance of the February vote and the free movement that is at the heart of the bilateral relationship, and that he would be "very surprised" if the government managed to present a solution that would meet both demands.

But Wolf Linder, a political scientist, is less absolute. "The best outcome would be if we found an arrangement that combines free movement and quotas. For that, you need legal experts who will explain that the moon is square." Either way, relations between the two unequal partners will never be the same again after 9 February.

In the meantime, Yves Rossier, Switzerland's state secretary in the foreign ministry, will negotiate with the European Union – initially represented by David O'Sullivan, a senior official in the EU's diplomatic service – on an institutional framework that would set the parameters for all existing and future sectoral agreements.

The EU had been pushing for some time for such negotiations because it took the view that the bilateral approach was reaching its limits. The Swiss government, after initial reluctance, accepted this interpretation and adopted a mandate for the talks late last year.

Adoption of the EU's mandate was delayed by the vote in February, which once again highlighted the fragility of a purely sectoral approach with no overarching structure.

Negotiations are expected to take "between a few months and a year", according to a senior EU official involved in the talks.

Toby Vogel

NEGOTIATIONS WITH THE EU Yves Rossier, state secretary in the Swiss foreign ministry.

REUTERS

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Parties on the right and the left have gained significant support at the expense of the centrists, writes Toby Vogel

REUTERS

The soft centre

Switzerland's domestic politics have been dominated over the past two decades by the question of how the country should relate to the European Union. But an innocent observer might not fully grasp this from listening in on parliamentary debates or political talk-shows. There has been surprisingly little discussion of broad strategic choices and the few politicians who support the goal of joining the EU are not pressing the issue. The public mood is distinctly hostile towards any suggestion that the fiercely independent-minded country might benefit from membership or could find itself compelled to join.

That mood is closely tied up with the electoral and political successes of the Swiss People's Party, or SVP, and of Christoph Blocher, its dominant figure for a quarter of a century. At the same time, it reflects the weakness of two centrist parties that have dominated Swiss politics for much of the period since the foundation of the modern state in 1848: the pro-business, liberal FDP and the Christian Democrats (CVP). Squeezed between the isolationist, anti-EU and anti-immigrant SVP to their right and the increasingly populist, pro-EU Social Democrats (SP) to their left, the traditional big-tent parties of the centre have lost not only seats in the National Council, the 200-seat lower chamber of parliament, but also their role as agenda-setters.

The decline of the centrists has been gradual but significant, from a combined 93 seats for the FDP and CVP in 1971 to just 58 in 2011, the most recent general election, while the SP has remained at 46 seats (albeit with considerable ups and downs in the meantime). The SVP, by contrast, grew gradually from 23 seats in 1971 to 29 seats in 1995; it leapt to 44 seats in 1999 and to 62 – its peak - in 2007. It remains Switzerland's largest party by far.

Similar dynamics can be observed elsewhere, of course. In neighbouring Austria, a country with close ties to Switzerland historically and culturally and roughly similar in size and wealth, the two previously dominant centre-left and centre-right parties dipped dangerously close to the 50% mark last autumn, their worst election result since the end of the war. This was largely the result of the inexorable rise of the right-wing insurgency of the Freedom Party under the late Jörg Haider, who finally led the party into government.

What is different in Switzerland is that the SVP's anti-establishment rhetoric is coming from the centre of the establishment – the party has been in the government since 1959 – and that it is using the powerful weapon of direct democracy to conduct opposition politics while remaining in government. This has allowed the SVP to wield real power on the federal council, the seven-member college of ministers that decides policy collectively, while simultaneously pursuing a more populist agenda through the use of the citizens' initiative and the referendum. Blocher is the personification of this approach of being inside and outside at the same time.

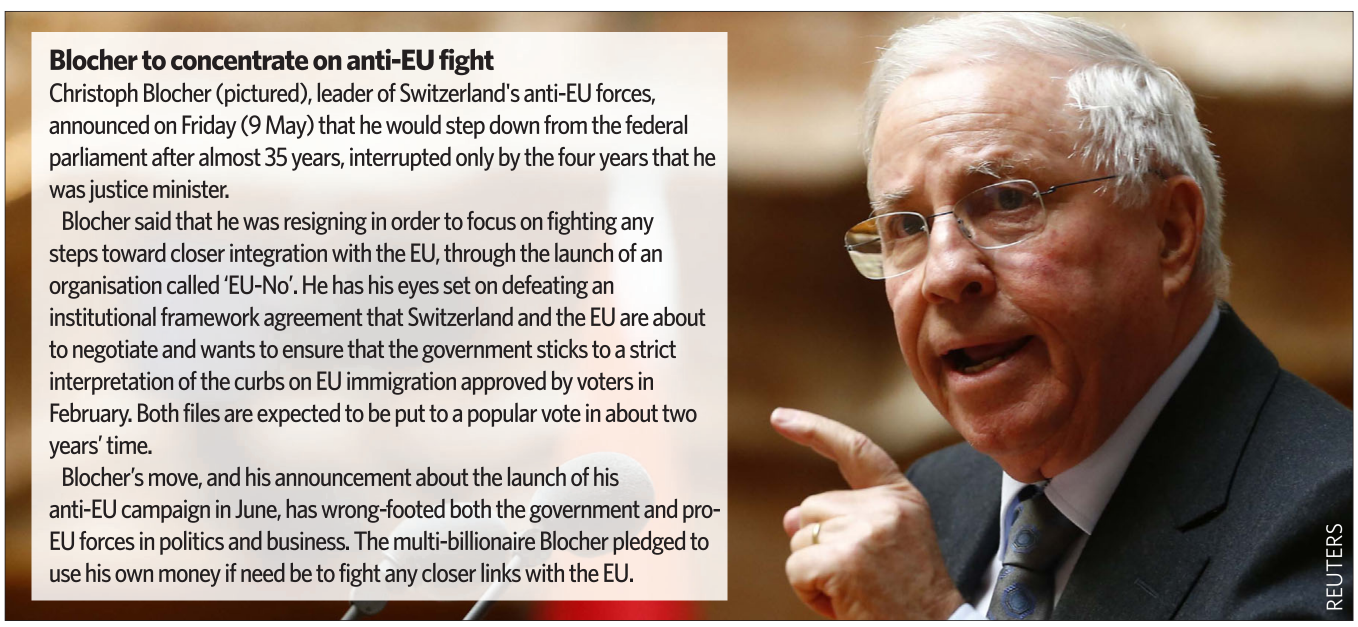
A billionaire entrepreneur with a doctoral degree in law who served as a minister in 2003-07, Blocher has made his pitch as a man of the people and a defender of those who no longer feel at home in an increasingly globalised and socially-open Switzerland with high immigration. Down to his folksy, even coarse language, Blocher has cultivated the image of the ordinary person who has been wronged by the bureaucrats and technocratic elites in Bern or big business and finance in Zurich and Geneva.

Blocher also embodies what Georg Kohler, a political philosopher, describes as a "constituent and constitutional split personality" at work in Switzerland: "We are cosmopolitan and open when it comes to business, but politically we are on a different planet." Being open for business while closing the door to other influences, notably migrants, is Blocher's winning formula. He has been thriving on the issue of Switzerland's relationship with the EU, together with immigration, because the big-tent parties refused to engage in an honest debate.

Wolf Linder, a political scientist, says that Switzerland was receptive to the SVP's message because it resonated with deep-seated beliefs. "The values of our political culture have helped the SVP," he says. "We are against bureaucrats, against professional politicians and against centralisation, and the executive-run EU is the complete opposite of that."

Switzerland's unique political institutions have empowered those who may feel powerless. Says Linder: "We are not a member of the EU but, through the bilateral way, we have participated in Europeanisation without membership, and this has produced winners as well as losers. The losers include small entrepreneurs, some of the trade unions, farmers and those with few qualifications. There are losers from Europeanisation in the member states, but there they are marginalised. We are a special case because the losers have much power thanks to direct democracy."

Indeed, the SVP's most powerful tool has been the citizens' initiative, in which any organisation that gets the backing of at least 100,000 citizens (around 2% of eligible voters) can force a vote on a particular issue. The SVP launched its first-ever initiative, titled "against illegal immigration", in 1992, the same year that it broke with government policy and successfully campaigned against Switzerland joining the European Economic Area. The rejection of the EEA has stifled debate about relations with the EU ever since.


REUTERS

Blocher to concentrate on anti-EU fight

Christoph Blocher (pictured), leader of Switzerland's anti-EU forces, announced on Friday (9 May) that he would step down from the federal parliament after almost 35 years, interrupted only by the four years that he was justice minister.

Blocher said that he was resigning in order to focus on fighting any steps toward closer integration with the EU, through the launch of an organisation called 'EU-No'. He has his eyes set on defeating an institutional framework agreement that Switzerland and the EU are about to negotiate and wants to ensure that the government sticks to a strict interpretation of the curbs on EU immigration approved by voters in February. Both files are expected to be put to a popular vote in about two years' time.

Blocher's move, and his announcement about the launch of his anti-EU campaign in June, has wrong-footed both the government and pro-EU forces in politics and business. The multi-billionaire Blocher pledged to use his own money if need be to fight any closer links with the EU.

EU membership 'a threat to direct democracy'

Most observers believe that Switzerland's direct democracy would be weakened should the country join the European Union, because policy areas that are an EU competence would be removed from the scope of Swiss citizens' initiatives (demands from at least 100,000 citizens) and referendums. The Swiss habit of voting on all sorts of policy questions would be curtailed, they warn.

Currently, initiatives are restricted to constitutional provisions: they cannot create new laws, only amend the constitution. This, however, also has the effect that there are, in principle, no constitutional constraints on initiatives. A provision such as a ban on the construction of minarets, which came into force in 2009, amended the constitution's stipulation of religious freedom but is not itself subject to the constraints created by that stipulation.

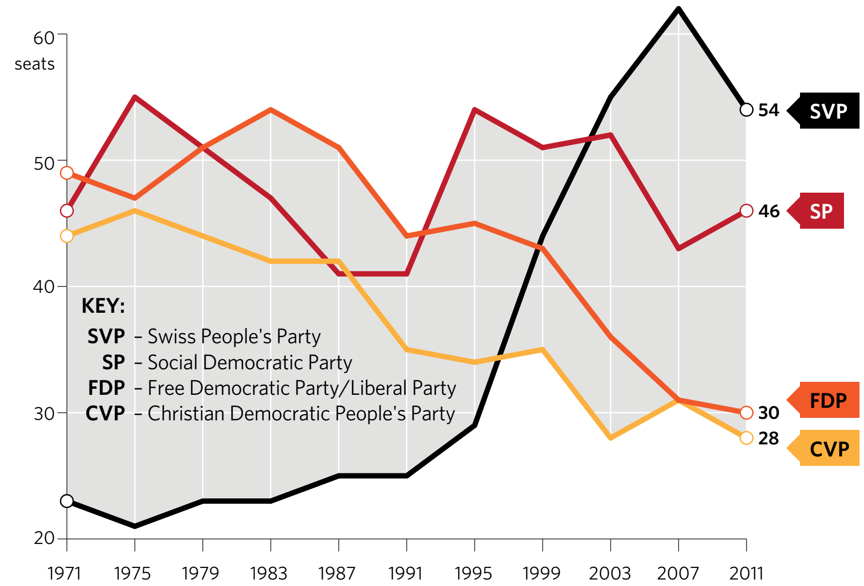
But such constraints would be inevitable on anything that falls under EU competence should Switzerland ever join the Union.

That prospect, however, looks highly unlikely, not only politically but also constitutionally. Joining the EU, just like joining the European Economic Area, which was rejected by voters in 1992, would require the backing not only of a majority of voters but also of cantons. In 1992, 50.3% of voters rejected joining the EEA (the same share that approved caps on immigration in February) – but it was also rejected by 16 of the 23 cantons. Given the large number of German-speaking rural cantons in which anti-EU sentiment is concentrated, it appears quite unlikely that any attempt to join the EU would be approved – even if a majority of voters backed it.

Toby Vogel

Rise and fall

Number of seats in lower house of parliament held by the main parties (total = 200)



Taxing times for the Swiss

Switzerland has made major concessions on tax transparency, but how much further will it go, asks Nicholas Hirst

On 6 May, Switzerland was one of 47 countries that agreed to implement a standard developed by the Organisation for Economic Co-operation and Development that would result in the automatic exchange of tax information between national tax authorities. This marks the latest step in a process that has seen Switzerland make major concessions on its controversial bank secrecy rules.

Over the past few years, it has signed tax treaties with the United States, France, the United Kingdom and Germany, among others. Switzerland is now committed either to withholding taxes directly or providing foreign tax authorities with the details of accounts held by their citizens.

Since 1934, Switzerland has had laws prohibiting banks from passing on details of their clients to public authorities, except in cases of serious crime. That aura of bank confidentiality made Switzerland a prime destination for private capital and led its banks to become among the largest private wealth managers in the world, looking after almost 2 trillion Swiss francs (€1.6 trillion). Konrad Hummler, former managing partner of the bank Wagelin, which pleaded guilty in the US to helping American citizens evade taxes and subsequently closed, estimated in 2009 that 30% of this money was not tax-compliant, according to Tax Justice Network, an NGO.

Although the Swiss economy weathered the financial crisis better than many others, the crisis was a trigger for many of the world's leading economies to clamp down on tax evasion and avoidance.

The US's Foreign Accounts and Tax Compliance Act (FACTA) – adopted in 2010 – was a watershed moment. Under FACTA, which comes into effect on 1 July, every financial institution in the world must give the US government details of any accounts belonging to US citizens, or run the risk of crippling sanctions. In addition, several Swiss bankers are facing criminal prosecutions in the US as a result of investigations into the practices of individual Swiss banks (see page 18).

Once European countries knew that the US tax authorities would be given the details of Swiss bank accounts, they began to press for similar treatment. The Swiss authorities crumbled and signed treaties with several EU member states – although the treaty with Germany was rejected by the German upper chamber, which objected to Germans with a Swiss bank account being allowed to retain their anonymity, subject to paying a Swiss withholding tax on their Swiss investments.

The European Union (at the behest of Luxembourg and Austria) is now putting pressure on Switzerland to adopt more transparent rules, similar to those adopted this year by EU member states. These extend the existing rules on the automatic exchange of tax information from bank account details to other financial products. According to the European Commission, Switzerland has said it could accept such rules. The Commission is likely to make the conclusion of other agreements between Switzerland and the EU that are currently being negotiated conditional on the signing of a new tax agreement.

In October 2013 Switzerland agreed to implement an OECD standard that requires tax authorities to exchange information on request. The country is now under pressure from other OECD members, which accuse it of failing to implement the standard. An OECD report in November 2013 stated that Switzerland had still not put in place some of the laws that are the basis of the standard.

In any case, the existing OECD standard is "definitely" not sufficient to stop Switzerland being used by foreigners to avoid taxes, says Mark Herkenrath of Alliance Sud, an NGO focusing on development policy. It can be very difficult for developing countries to make successful requests for tax information as Switzerland refuses to process requests made on the basis of leaked information. But, he admits, "automatic information exchange would be the end of Switzerland's bank secrecy".

Doubts persist about how many more concessions will prove palatable to the Swiss people. Some business leaders and parliamentarians have accused the government of being unprincipled and acquiescing to US 'blackmail' on bank secrecy. "We gave up on a strong position of principle. In 2007, the general public was pretty sure that our position wouldn't change on tax secrecy for persons," says Marco Salvi, a tax specialist at Avenir Suisse, an economic think tank. "Now the mood is that we should be very careful on next steps."

Low taxes

Grumblings about the Swiss model do not stop with bank secrecy. Switzerland's own tax system is also in the firing line: Swiss cantons have considerable leeway in setting taxes, meaning that companies in many cantons pay as little as 9%-11% in corporate tax. "The special regimes we have in the Swiss cantons are being criticised by the European Union and the OECD," says Salvi.

Frank Marty of Economiesuisse says that this does not differ greatly from the taxes levied in Ireland, where corporate tax is 12.5%, or in other EU member states, where corporate tax rates can be subject to deductions and rebates.

Switzerland argues that its tax levels are merely an example of fair tax competition at the international level. But it is discussing a new set of rules that would allow for compliance with the EU's demands. At the moment, progress is slow. "Redrawing the corporate tax level is not a priority," says Salvi. "It is hard to sell to the electorate, since it is seen simply as a gift to multinationals."

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REUTERS

ON THE UP The Swiss stock exchange in Zurich.

A show of economic strength

The Swiss economy has weathered recent economic storms thanks to a strong currency and the health of its close neighbours, writes Nicholas Hirst

From the perspective of a citizen of the eurozone, Switzerland has come out of the financial crisis in great shape. If Germany has weathered the eurozone's recession well, with its economy growing by 13% between 2007 and 2013, Switzerland has boomed: its economy (measured in euros) is 49% larger in 2013 than it was five years earlier, according to Eurostat.

This figure is less a measure of Switzerland's economy than of the formidable strength of the Swiss franc. Politicians and businessmen complaining about the euro, which has gained 15% against the dollar since mid-2012, should examine the case of the Swiss franc, which has gained 37% against the euro since November 2007. Measured in Swiss francs, the Swiss economy has grown 8% since 2007. If this seems steady if unspectacular, it is an impressive feat to have maintained growth despite the currency's extravagant appreciation.

Since the eruption of the financial crisis, capital has flocked to Switzerland, which is perceived as a safe haven. In response, the Swiss central bank has effectively pegged the Swiss franc to the euro, committing itself to not letting the currency appreciate above a certain level.

One reason why Switzerland has escaped the recessions and low growth plaguing much of Europe is that Germany and Austria, the economies with which Switzerland has the most connections, have continued to grow reliably since the crisis. "Switzerland has a very open economy," says Catherine Stephan, an economist at BNP Paribas. "As for exports, it relies on many specialist products such as chemicals or time-keeping instruments."

Alexis Lautenberg, chairman of the Swiss Finance Council and president of the British-Swiss Chamber of Commerce (BSCC), attributes part of Switzerland's success to the number of educated migrants moving to the country. "There is a direct link between the quality of immigration and the quality of the growth," he says, although he adds that the level of migration has caused "big distortions".

Yet Switzerland's choices about whether to improve or loosen its relations with the EU, in the wake of the referendum vote in favour of re-introducing quotas for immigrants, could have a profound effect on its economy. "The referendum risks restricting access to talent and skilled workers," says Frank Marty of Economiesuisse, a Swiss business association. A worsening of the country's relations with the EU, its largest trading partner, could also have a severe impact.

Economiesuisse has already reported a drop in foreign companies moving to Switzerland, which it attributes in part to uncertainty arising from the referendum, while the BSCC has also noted a drop in investment in Switzerland by UK companies.

As Mario Salvi of Avenir Suisse, an economic think-tank, observes, this chilling effect could dampen Switzerland's economic performance until the matter is resolved. But perhaps equally important for Switzerland's economy is whether the eurozone, a key trading partner for Switzerland, can drag itself out of the economic stagnation that has dogged it since 2007, dampening the interest of even the most Europhile Swiss.

Swiss banks adapt to changed circumstances

Many Swiss lenders are looking to put tax evasion investigations behind them to concentrate on their core business, writes Nicholas Hirst

Switzerland's banks can no longer rely on the allure of banking secrecy to attract rich private clients. That is the consequence of a wide-ranging effort, led by the United States in the wake of the financial crisis, to clamp down on tax evasion, with Swiss banks and their €1.6 trillion of foreign assets in the firing line.

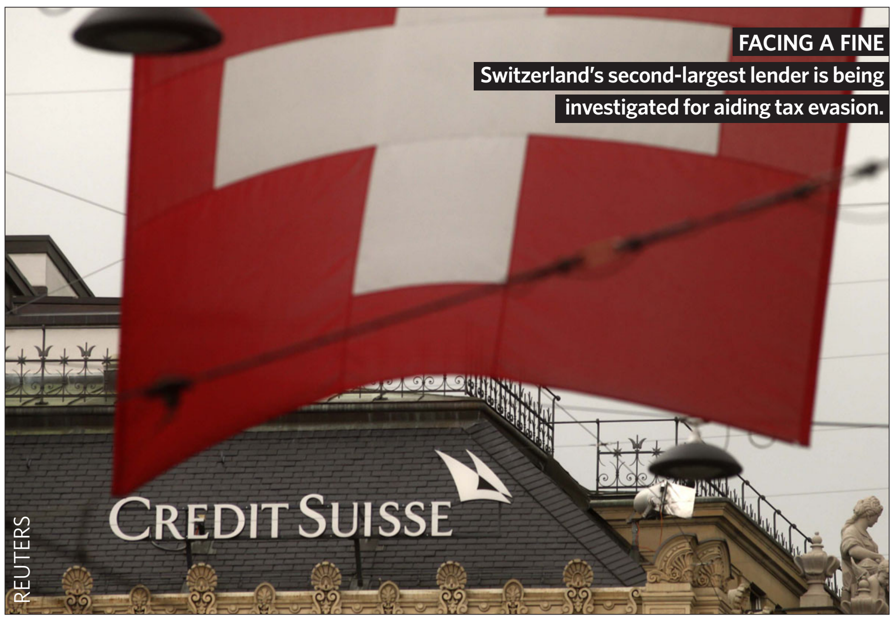
The outlook for Swiss banks has changed radically as a result. UBS, Switzerland's largest bank and biggest private wealth manager, was fined $780 million (€609m) for helping US citizens evade tax, and had to disclose the names of thousands of its US account-holders. Wagelin, Switzerland's oldest private bank, founded in 1741, closed last year after pleading guilty to similar charges (although on a far smaller scale).

Urs Rohner, Crédit's Suisse's chairman, confirmed on Friday (9 May) that his bank, Switzerland's second-biggest lender, was trying to settle similar charges – it has been reported that the fine could be as high as $1.6 billion (€1.2bn). The Swiss government on 6 May indicated that it would sign up to an international agreement that would oblige banks to provide foreign tax authorities with information about bank accounts held by foreigners.

As a result, assets belonging to US citizens managed by Swiss banks have drained away. A report drawn up by Booz & Company, a consultancy, in 2012 estimated that tax-exchange agreements with Germany and the United Kingdom alone would see an outflow of assets worth 47bn Swiss francs (€38bn), leading to a decline of private banking revenues of 4.4%. But the report goes on to argue that changes in bank secrecy offer the private banking sector a "great opportunity" to grow in the medium term, by presenting itself as the leading destination for tax-compliant "white money". This fits in with Swiss government proposals to require banks to ensure that deposits comply with foreign tax rules.

The prevailing attitude of "tolerance" towards undeclared assets "has fundamentally changed", Rohner told Crédit Suisse's shareholders on Friday.

In a similar vein, Daniel Sauter, chairman of the Julius Baer Group, told his shareholders on Friday that the bank aimed to get all its European clients tax-compliant by 2015. The bank would renew its focus on offering strong client relationship, he said.



REUTERS

FACING A FINE Switzerland's second-largest lender is being investigated for aiding tax evasion.

Rohner set out some of the qualities upon which Swiss wealth management is based: "Switzerland is valued as a stable, competitive financial centre with a high degree of legal certainty and a very high quality service offering." That is clearly an attractive proposition, as Swiss banks have in the past years seen major inflows from emerging economies. Several banks are also focusing on attracting more institutional investors, which have far smaller concerns about tax evasion are far smaller.

The Swiss banking sector may find it difficult to overcome the reputational damage caused by the protracted investigations into its activities and its capitulation on bank secrecy rules. However, Switzerland's banks stand to gain from a significant first-mover advantage compared with banks in other jurisdictions that have bank secrecy rules that will also come under scrutiny.

In July, rules come into effect in the US that will require financial institutions across the world to provide details of all accounts held by US citizens or face potentially crippling sanctions. Once settlements with Swiss banks are concluded, US authorities are expected to turn their attention to the likes of Singapore and the Cayman Islands, as well as to follow the trail of US money that has left Switzerland since the crackdown began.