

World Report

Switzerland

06 OCTOBER 2007

**Swiss roll out new
economic areas**



Switzerland

Banking on a range of alternative economic strategies

Famed for banks, the Swiss economy now offers a world of opportunity for small and medium-sized enterprises



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The Swiss enjoy a reputation as a sensible and quietly prosperous people, thanks in large part to keeping out of Europe's conflicts for more than 500 years. But the defining characteristic of this island of stability is the flexibility of its economy. Slightly bigger than Wales, largely mountainous, with a population of seven million and few natural resources, Switzerland's economy is in a constant state of adaptation to external factors, while looking ahead to emerging markets and trends. It has skillfully sold itself abroad, acquiring its enviably high standards of living, education and health care largely through international trade and banking, and by a thriving tourist sector.

The Swiss economy, which grew by 2.7 per cent in 2006, and by around 2.4 per cent in 2007, is not built on mass production or large industries. Instead, more than 99 per cent of the country's 300,000 companies are SMEs—small and medium-sized enterprises. Many of these businesses have followed a niche strategy of concentrating on a small range of high-quality products. As a result, such enterprises have often been able to corner the world market in their own speciality.

Switzerland's international reputation for the high quality of its exports, based on mechanical and engineering products, micro-technology, high technology, biotechnology, pharmaceuticals, banking and insurance, is built on heavy investment in research and develop-

ment. Swiss products command high prices in world markets because consumers are ready to pay for high quality. But with such a strategy, Swiss companies dare not rest on their laurels. In Switzerland, a higher percentage of people work in research and development than in other industrialized countries, with R&D accounting for 2.7 per cent of GDP.

Swiss exporters can count on the federal government to help find new markets, as economic affairs councillor Doris Leuthard explains. "In a global world we have to get better access worldwide: we aim for open markets and we fight trade barriers," she says. In 2007, she visited India and Japan, Indonesia, and the Gulf States in the continual quest to open up new international markets.

Aside from the adaptability of its industries, the stability of the economy is built on the gold-backed Swiss franc. Then there is Switzerland's consensus-based democracy, which means taking the wishes of all parties whose interests would be affected by a change in legislation into account by submitting new laws to the popular vote if required.

Online trading attracts private investors

Switzerland's banking sector is synonymous with privacy, stability and the protection of customer information and assets. Most people think a Swiss bank account is the preserve of the super-rich, and while the country's financial system has long attracted the world's wealthy, the reality is that its benefits are open to a wider public. As Charles-Henri Sabet, founder, majority owner and CEO of one of the best-known and most competitive Swiss online investment banks, Synthesis, points out: "Around 90 per cent of our clients have between 9,000 and 180,000 in their accounts."

With nearly 400 banks in Switzerland, ranging from giants like UBS and Credit Suisse to institutions that serve single communities or selective clients, it is the world's largest offshore financial centre. Swiss financial institutions manage more than a third of the world's private wealth, while insurance firms such as Swiss Re, Swiss Life and AXA Winterthur are among the global leaders.

Last year, the financial sector accounted for almost 15 per cent of Switzerland's GDP – and 16 per cent of all tax revenues – providing some 200,000 skilled jobs (5 per cent of the total workforce).

But the rate of wealth creation

Continued on page 3



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Continued from page 2

in Switzerland has slowed since the 1980s while in the largest markets, New York and London, growth has rocketed by up to 9 per cent.

In response, a new generation of financial institutions is helping to develop Switzerland's commodities trading, hedge funds, and online foreign exchange trading, or Forex, which has undergone phenomenal growth worldwide since the late 1990s.

The Forex market is a nonstop, 24-hour, five-days-a-week cash market where international currencies are traded, typically via brokers. Foreign currencies are constantly and simultaneously bought and sold across local and global markets and trader's investments increase or decrease in value based upon currency movements. Foreign exchange market conditions can change at any time in response to real-time events.

As Mr Sabet points out, currency dealing is highly attractive to private investors. "You make your own decisions, you are not influenced by somebody else. Online trading is very easy. Firstly, prices are transparent. Also, your account information is

online along with your position and margin utilization, making it straightforward to manage risk."

Although recently voted Switzerland's most competitive bank in terms of pricing, Mr Sabet says cost isn't everything. "A bank has to look at the tools it offers. I would say our trading platform is in the top three globally. Also, accounts can be opened via the Internet in a matter of minutes." Which isn't to say that Switzerland's banking regulations don't require detailed identification.



CHARLES-HENRI SABET
Founder and CEO of Synthesis

On September 13, 2007, Saxo Bank acquired Synthesis after a four-year partnership in a move that will create a potent trading entity. Saxo Bank's trading platform, winner of the e-FX Best Online Trading Award for three consecutive years, combined with Synthesis' market acumen and local knowledge have given Mr Sabet rise to envisage a fruitful future for all parties. "For me, this transaction is the perfect match between two partners that know and trust each other. Becoming one bank will create so much synergy and opportunity that it can only benefit clients, employees and shareholders." ●

MIG INVESTMENTS

Still the most prestigious market, choice location

When MIG Investments decided to go global, Hisham Mansour knew Switzerland was the only choice of location.

"This is still the most prestigious market, and we wanted to attract a larger client base," he says from the offices of MIG Investments in Neuchâtel, located between Zurich and Geneva, where MIG has been based since 2003.

"The Swiss Economic Promotion Office was very helpful, and we were up and running very quickly."

Regulated by the Swiss Federal Department of Finance, and committed to providing "absolutely the best service in the market," MIG caters to both private and institutional clients via its 24-hour online trading software – the award winning MIG Trading Station. This sophisticated platform allows MIG to offer the highest possible margins and leverages in the market, as well as allowing clients to hedge their positions.

MIG has tripled its account base in the last year and prides itself on the unique and individualised service it provides. The company website is available in 9 languages and its workforce operates in 16, reinforcing MIG's onus as a personal partner in trading.

Today, the company has clients from more



HISHAM MANSOUR
CEO of MIG Investments

than 100 countries worldwide making best use of MIG's highly skilled team and its in-house research department, which supplies up-to-the-minute information. Mr Mansour says the company's solid growth is based on its competitiveness. "We are continuously revising our conditions as we want our clients to feel confident that MIG at all times provides the market's most competitive conditions. MIG is now offering tight spreads as low as 1 pip

on the leading currency pairs. Although a significant part of our clientele are institutional, we want to expand on this. That is why we have started preparing our application for a banking license."



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MEM industries take the lead

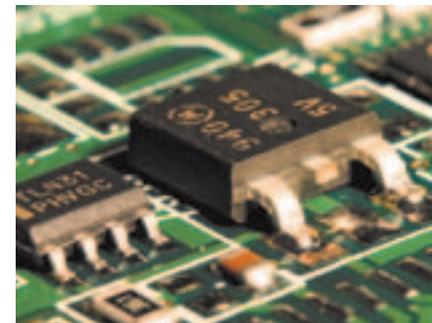
The mechanical and electrical engineering sector—known collectively in German as the MEM industries—is one of the major branches of the Swiss economy.

Covering four main areas—metallurgy, mechanical engineering and vehicle construction, electrical engineering and electronics, and precision instruments—MEM industries employ more than 300,000 people, making them the biggest industrial employer in Switzerland.

The output of today's MEM industries includes household goods, machine tools, construction plants, and highly specialised microelectronic apparatus, accounting for over 40 per cent of Switzerland's visible exports.

Switzerland has used its long-standing experience and permanent innovation in the mechanical and engineering field to focus on niche industries. Given the country's high population density and strict environmental regulations, it is no surprise that it is a world leader in many aspects of waste management.

Extremely competitive globally, Swiss MEM firms have a strong presence in the European Union. Typical of this approach is CTU, which is active worldwide in combus-



Microelectronics account for more than 40 per cent of visible Swiss exports

tion, gas cleaning, and residue treatment.

"Europe is the major market, but we also have operations in Asia," says CTU managing director Martin Schaub. "We've seen strong growth in southern Europe in the waste sector following the EU's landfill ban. We also expect to see our presence increase in the United Kingdom. For renewable energy products we see Germany as our major market, as it is the leader in biomass,"

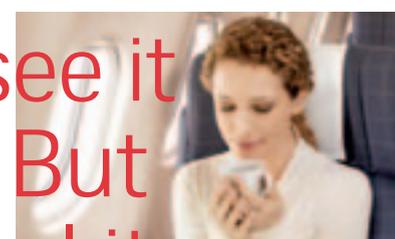
Swissmem, the MEM sector's umbrella organization, wants to see the government

Continued on page 5

A STAR ALLIANCE MEMBER



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Swiss Post International: ushering in a new era of logistics

The Pony Express isn't what it used to be. Responding to market liberalization and an increasingly digital world, postal service providers worldwide are changing, adapting and proving themselves to be resilient in finding niche markets, where, yes, paper still does count. In fact, it's essential. One of the top European players to excel in this changing market is Swiss Post International (SPI). Over the past decade, the company has established a global presence in cross border mail services that has seen it rise to become one of the world's top five in this global industry.

Employing a staff of more than 1,000 worldwide, SPI is currently active in 11 European and four Asian countries, as well as the US, where it has created successful partnerships with a number of mailing companies. Director Jean Pierre Streich elaborates, "In all of the countries in which we operate, SPI provides all of the services necessary for international business, from the processing of daily post to comprehensive direct marketing services, full distribution of newspapers and magazines, and the shipment

of small goods."

SPI has based its strategy on four key pillars: safeguarding its leadership position in the Swiss import/export business, securing alliances in the express and parcel business, achieving international growth in mail business, and building up the Swiss Post brand.



JEAN PIERRE STREICH
Director of SPI

Of course, being Swiss counts in the postal industry. The national reputation for precision and punctuality has been embodied in SPI, which Mr Streich says continually strives to ensure its strong brand name stands for reliability, innovation and efficiency.

A wholly owned subsidiary of Swiss Post, SPI also benefits from its association with its reputable parent company, according to Mr

Streich, who observes, "For SPI, the association with a brand that is synonymous with quality only adds to our credibility as a market leader."

International operations now provide two-thirds of SPI's earnings, and have grown by 20 per cent annually over the past few years – a growth that Mr Streich sees as sustainable in the short to mid-term. The company recently entered Scandinavia

through SPI Sweden and a sales agent for Denmark, and it has also set up an Asian division that operates in Singapore, Hong Kong, Malaysia and Indonesia. Last year, it secured its first sales agent in China, a country that Mr Streich believes will be an area of future expansion for SPI, along with India, South Africa and Australia.

The UK, however, remains its single most important market – SPI UK has a 30 per cent market share of the wholesale cross border business, and its 100 employees there clear more than a million kilos of mail per month to over 200 cities. The company also has a hub in Heathrow to enable direct access to major scheduled airlines for rapid dispatch. Last year Swiss Post acquired GHP, a German company and one of Europe's largest mail and card service providers. "Together with the presence of Mail Source and GHP, both also based in the UK, I think that the UK will continue to be our number one market," asserts Mr Streich.



Cross Border Mail was the successful niche spotted by SPI, which now has a presence in Europe, Asia and the US

Looking forward, the most dynamic sector for future growth is direct marketing, and it will be a priority in the company's activity expansion, says Mr Streich. "Our main focus is the cross border mail business, in which direct marketing is the most important sector," he concludes. "We also see potential in the international press business, and have acquired some Swiss companies dedicated to this business, which will give us added services. Another area is custom clearance with Switzerland and Europe, and we see potential for growth in the business-to-consumer market." ●



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MEM industries take the lead

Continued from page 3

push for an overall energy strategy based on high-tech solutions to reduce dependency on traditional fuels, reduce carbon emission, and promote more efficient waste management.

"CTU is conscious that the world's resources are scarce, and so we are working hard in this direction. We've always been a leader in developing sustainable and environmentally friendly solutions to waste management," says Mr Schaub. CTU has also developed Kompogas, a system for the fermentation and composting of biomass, as well as a joint venture for the gasification of wood, generating heat and electrical power.

"In the final analysis, being competitive comes down to quality, and people expect this from a Swiss company, and so we have to put a lot of money into new developments says Mr Schaub. "The program to produce synthetic natural gas from wood takes up about 12 per cent of our gross margin for around two years."

As Swissmem points out, the global economic upswing of the last year has seen Swiss mechanical and engineering companies benefit from foreign direct investment.

With record exports last year of \$42 billion, and an export ratio of 80%, the MEM sector looks set to continue competing internationally at the highest level. ●

BESCHLE CHOCOLATIER

A real box of cliques

Along with watches and cuckoo clocks, chocolate is inextricably associated with Switzerland. Indeed, by the time that Beschle was founded in 1898, the country had already established itself as a world leader in chocolate-making.

Over the last century, this Basel-based family business has rigorously stuck to its commitment to maintain the highest possible quality. Indeed, over the years, if the raw materials for certain products were scarce or unavailable, the company would simply suspend production. As head of marketing Dominic Beschle, who represents the fourth generation of the firm, points out that this commitment to quality is central to its new product range - Beschle Chocolatier - which was unveiled in April 2007.

"We have now moved toward producing one chocolate product from a single bean variety that we call single origin," he says.

Beschle's product line now solely utilises an exclusive choice of cocoa beans such as the



Criollo or the Trinitario, which the company sources from Madagascar and Venezuela respectively.

These are chocolates in the champagne and caviar tradition, the equal of a fine Havana cigar or a Napoleon brandy. And as with other high-end, luxury goods, hand-made chocolates are very much in fashion. "We are experiencing demand like never before," says Mr Beschle, indicating a tempting array of treats such as Maison truffles, Mandarinettes (still among its most popular item after more than 100 years) or the Grand Cru Criollo Maracaibo Classificado at the firm's offices, where Beschle has been in situ since 1898.

The company is now marketing its chocolates through e-commerce. "We have redesigned our packaging as a fashion item, our boxes are similar to jewellery or watch cases. We use different colours, but our traditional logo remains. I would say we are classic and traditional, while fashionable at the same time," explains Mr Beschle, adding that e-commerce sales already make up around 15 per cent of Beschle's trade.

"The entire collection can be ordered online at www.beschlechocolatier.com," says Mr Beschle. "During the Christmas season, we will customize the chocolates as a present and send them with a personal dedication to friends or acquaintances." At the moment, the company is focusing on Germany and the United Kingdom, and will soon be expanding into the Japanese and Russian markets. ●

Swiss International Air takes the travel experience to new heights

Vitally important to the economy, tourism employs around 12 per cent of the workforce directly or indirectly, and ranks third in economic importance after the metal and machine industry and the chemical sector.

The world's 14th most popular tourist destination, in 2006 the number of overnight stays rose to 34.8 million, an increase of 6 per cent on the previous year, with foreign visitors making up just under half of the figure.

What's more, the country has the most competitive travel and tourism sector in the world, according to the World Economic Forum. Home to some of the world's most prestigious hotel management schools, Switzerland offers excellent transport and tourism infrastructure as well as rich natural resources, the forum states.

And as the country's leading airline, Swiss International Airlines reflects the values of quality, efficiency and hospitality that have earned the country international recognition.

Taken over by Lufthansa in March 2007—the German airline will first take

control of 49 per cent of Swiss and then purchase government, UBS and Credit Suisse stakes over the next year—the company was formed in 2002 by merging the remains of Swissair with regional carrier Crossair.

Shortly before Lufthansa's entry, the company recorded its first net annual profit of \$154 million, largely thanks to a year-long restructuring program that improved its cost base.

Head of European sales and marketing Alexander Aranda says Lufthansa has made the difference. "We were suddenly able to transport people to places where we had dead ends," he says. "The relationship has also helped us with our frequent flyer program, as has being a member of the Star Alliance, which gives us reach with regional carriers like SAS."

Swiss International Airlines has one of the highest fleet utilizations in Europe, with a very short turnaround and more time spent in the air. "We refurbished our seats using thinner ones that give more legroom, but which also allow us up to 14 more passengers on our Airbuses."

Operating from Zurich, Basel and Gene-



Swiss has one of the shortest turnaround times in the world

va is also making a big difference in attracting passengers. "Frequent flyers have come to realize that Zurich airport works. It's not just that it's clean and punctual and symbolizes the characteristics of the country. If you travel from here, or stop over, you can be assured that it will work, that your luggage will show up,"

Zurich airport has benefited from Swiss International Airline's improved fortunes. It reported a 48 per cent increase in annual profits for 2006, thanks to an 8 per cent rise in the number of passengers flying from there. That growth has continued throughout 2007, with volume growing to 20.7 million. ●

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