



International Market Access

The Swiss economy and the war in Ukraine – ***economic and human- itarian perspectives***

May 20, 2022

At a glance

The war in Ukraine is first and foremost a humanitarian tragedy. Yet it also affects the Swiss economy directly and indirectly. Recent member surveys conducted by *economiesuisse* show that Swiss companies and their employees have provided extensive humanitarian aid by way of donations, in-kind contributions, and volunteer work in the actual war zones, along refugee routes, and also in Switzerland since the start of the war. This is shown by member surveys conducted by *economiesuisse*.

Executive summary

Russia's large-scale war of aggression against Ukraine since February 24, 2022, marks a historical turning point in Europe and beyond. The dramatic developments in the war in Ukraine over the past several months also have far-reaching consequences for Switzerland – from a humanitarian perspective as well as in terms of security and the economy. The Swiss business community strongly condemns the war of aggression against Ukraine. Russia's blatant breach of international law is totally unacceptable. This position paper details the direct and indirect economic impacts of the Ukraine war on the Swiss economy and shows the extent of the Swiss private sector involvement in humanitarian activities in connection with the war in Ukraine. *economiesuisse* recently conducted comprehensive member surveys on both issues. *economiesuisse* firmly believes that the private sector in particular can significantly contribute to alleviating the immediate suffering of the victims of war in Ukraine. All Swiss companies are hereby called upon to pitch in as best they can. Such support is likely to become even more crucial as the war drags on.

Positions *of economiesuisse*

The tragedy of the war in Ukraine plainly demonstrates the fundamental importance of peace.

- Russia's war of aggression on Ukraine is unacceptable and is condemned in the strongest possible terms. The Swiss business community fully supports the sanctions imposed by the national government against Russia.
- The direct effects of the sanctions against Russia and Belarus on bilateral trade relations with Switzerland are minor. However, indirect effects such as supply chain bottlenecks, logistical problems and rising prices are challenging.
- The civilian population of Ukraine must be helped. Aid organisations, the Swiss Confederation, private initiatives, and companies are making a joint effort to support the suffering population.

- The humanitarian commitment of Swiss companies shows how the business community is helping the Ukrainian population in concrete terms. Hopefully this will motivate more companies to take action as well.



The war in Ukraine *also affects Switzerland*

Russia's large-scale war of aggression against Ukraine since February 24, 2022, marks a historical turning point in Europe and beyond. The dramatic developments in the war in Ukraine over the past several months also have far-reaching consequences for Switzerland – from a humanitarian perspective as well as in terms of security and the economy. Swiss business leaders strongly condemn the war of aggression against Ukraine. Russia's blatant breach of international law is totally unacceptable. On February 28, 2022, based on Article 1 of the Embargo Act, the Federal Council consequently decided to fully adopt the sanctions of the European Union (EU) against Russia (five sanctions packages to date). These also include measures against Belarus. The Swiss business community fully supports this decision. There is no question that Swiss companies comply with all the corresponding legal requirements. Independent sanctions by Switzerland, on the other hand, are not considered expedient.

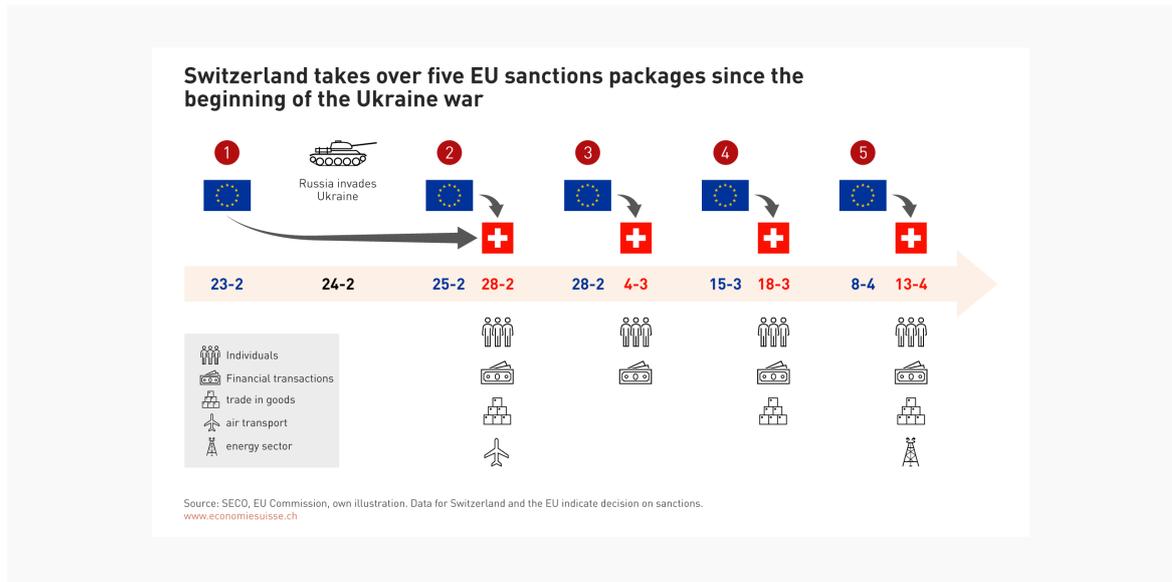
Swiss sanctions against Russia and Belarus

Since February 28, 2022, the Federal Council decided to adopt all five of the EU's sanctions packages with a few exceptions such as transport bans, due to Switzerland's geographical location (e.g. maritime shipping). The measures focus on the following key aspects (status as of April 27, 2022):

- Airspace closed to all Russian aircraft
- Export bans (dual-use goods, aerospace goods, goods for the energy sector, paraffin, chemical and luxury goods)
- Import bans (weapons, ammunition and explosives, iron and steel products, coal, and other goods such as cement, wood, fertiliser, and caviar)
- Travel bans on individuals, asset freezes and prohibitions on providing economic resources and/or technical assistance to individuals and companies.
- Various financial measures: including prohibitions on transactions with the Russian Central Bank, prohibitions on granting loans, accepting deposits and, in connection with securities trading, prohibitions on providing financial resources to produce sanctioned goods, reporting requirements for blocked assets and existing deposits. Prohibitions on transactions with certain state-owned enterprises. Exclusion of major Russian banks from the SWIFT banking communications network.
- Prohibition of financial support to Russian public institutions (within the framework of a Swiss national programme) and prohibitions concerning trusts.

Switzerland has been very quick to adopt the successive EU sanctions packages. Additional sanctions are conceivable as the war in Ukraine continues. At the beginning of May 2022, the EU Commission presented a sixth sanctions package, which also includes a ban on the import of Russian oil. The State Secretariat for Economic Affairs (SECO) has set up a hotline for questions on sanctions and provides updated information online. In addition, a newsletter provides information on any changes to the sanctions.

Switzerland imposes the same sanctions as do important trading partners – such as the EU – against Russia and implements them quickly.



In response, Russia has taken various countermeasures against Western companies. These measures greatly increase the risks and uncertainties for Swiss companies doing business and investing in Russia.

Swift and decisive response by Swiss companies

Irrespective of the sanctions, Swiss companies have substantially reduced or completely suspended their economic activities in Russia and Belarus. The reaction of the business community thus in many cases goes well beyond what is required by the sanctions. Financial losses are of minor importance for the companies. For security reasons, they were also forced to reduce or temporarily suspend their activities in Ukraine. The safety of employees, the support of the suffering local population and sending a clear signal against the Russian war of aggression are the primary focus. As a result, many companies have been involved in the humanitarian sector since the very beginning of the war. They have been helping their employees, refugees, and the suffering population in the war zones.



Economic *impact*

Switzerland had long-standing bilateral economic relations with Russia and Ukraine before the war. But Russia's annexation of Crimea in 2014 and the invasion of Ukraine in 2022 countered by measures taken by the Swiss authorities and sanctions imposed by the international community have severely affected Switzerland's economic relations with the two countries. Figures compiled by SECO, by the Federal Office for Customs and Border Security (FOCBS) and the Swiss National Bank bear this out.

Bilateral trade relations with Russia of limited relevance for the export industry

Before the war, Russia was the eleventh largest economy in the world. About two-thirds of its exports consist of oil, petroleum products and natural gas. The large share of commodities in its exports makes the Russian economy vulnerable to price fluctuations on the commodity markets. For the Swiss export industry, Russia is of limited importance. Total bilateral trade with Russia was CHF 4.7 billion in 2021 (export and import, total 2), with Swiss exports accounting for CHF 3.4 billion and imports for CHF 1.3 billion. Russia ranked 23rd among Switzerland's most important trading partners in terms of goods for 2021. Exports to Russia include mostly chemical and pharmaceutical products, precision instruments/watches and machinery while Switzerland mainly imports precious metals from Russia. Compared to the bilateral trade in goods, the volume of services traded is significantly lower. In 2020, Switzerland exported services worth CHF 2.3 billion to Russia and imported services worth CHF 0.9 billion in return. Swiss service exports to Russia in 2020 primarily comprised transport services, licenses, and financial services. On the import side, transport services also account for the largest share. Swiss direct investments in Russia totalled CHF 27.8 billion at the end of 2020. Swiss companies employed more than 39,000 people in Russia in the same year. Starting in 2014, the Swiss government took steps to prevent the circumvention of international sanctions related to the annexation of Crimea. Negotiations for a possible free trade agreement between the states of the European Free Trade Association EFTA (Switzerland, Norway, Iceland, and Liechtenstein) and the then customs union between Russia, Belarus and Kazakhstan were also suspended.

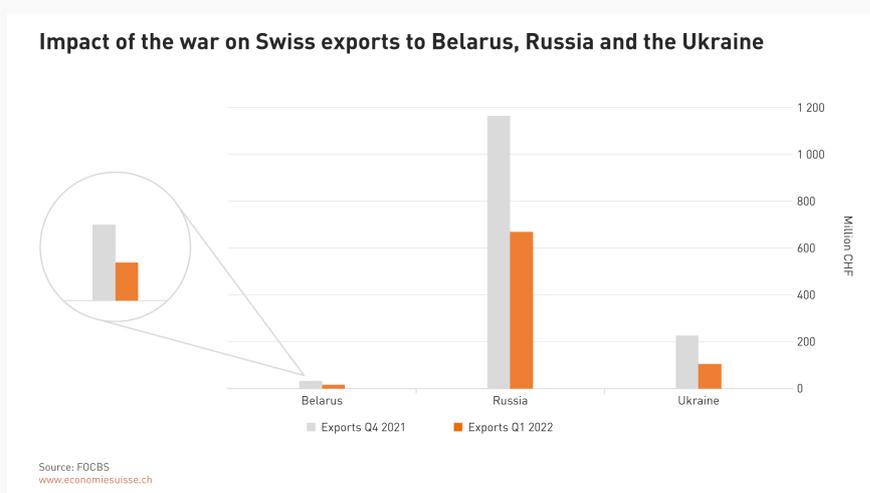
War stops positive trend in economic relations with Ukraine

After the Maidan Revolution of 2014, Ukraine increasingly turned towards the EU both politically and economically. This reorientation of the Ukrainian economy also had consequences for the bilateral economic relations with Switzerland. Although still relatively small, they have developed very positively in recent years. In 2020, Ukraine ranked 64th among Switzerland's trading partners. In 2021, trade between the two countries reached a new high of CHF 831 million, an increase of 12.9 percent over the previous year. Switzerland exports mainly chemical and pharmaceutical products, precious metals, and precision instruments/watches, while Ukraine exports textiles, agricultural and forestry products, and precision instruments/watches to Switzerland. Different as with Russia, trade in services from Ukraine to Switzerland is more important in comparison to trade in goods. According to the latest figures available, Switzerland is the third most important importer of Ukrainian services. Switzerland, on the other hand, is the fourth biggest investor in Ukraine (USD 2.7 billion, International Monetary Fund) and was present in the country before the war with numerous different projects for SECO's economic development cooperation. Certain of these projects are being continued, albeit adapted to current needs. The war has severely impacted bilateral economic relations between Switzerland and Ukraine. Companies have had to limit or completely stop local production. Imports and exports are no longer possible in some cases due to the war and logistical problems. The specific impacts vary from company to company. The long-term consequences cannot yet be precisely assessed. Clearly, the war and the large-scale destruction of infrastructure will continue to affect the economic development of the country for years to come.

Sanctions also affect Switzerland's trade relations with Belarus

As Switzerland has also tightened its sanctions on Belarus, the economic relations between the two countries are obviously affected by the current situation, albeit to a significantly lesser extent. Economic ties between Switzerland and Belarus were not close even before the war. According to FOCBS statistics, bilateral trade in goods totalled a mere CHF 158 million in 2021 (total 2) with Swiss exports of just under CHF 109 million and Belarusian exports to Switzerland of almost CHF 50 million. Economic framework conditions deteriorated in 2020 due to unrest and political instability in the wake of the presidential election. This trend is likely to continue under the current circumstances.

Since the outbreak of the war, bilateral trade flows between Switzerland and the three countries have plummeted.

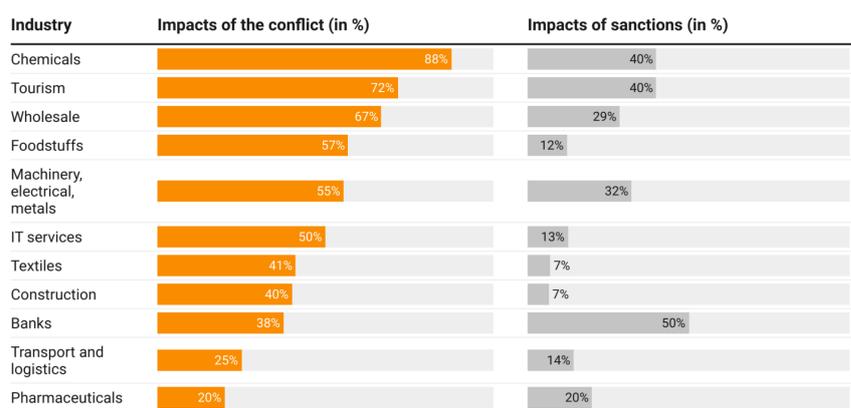


Indirect effects of the war in Ukraine potentially serious for Swiss economy

The direct impact of sanctions on bilateral trade relations is rather small for the Swiss export industry and the financial centre. Indirectly, however, the war poses major challenges to both the Swiss and global economy. The war is exacerbating existing supply chain bottlenecks. This makes the procurement and production of certain products such as chips, cars or building materials more difficult and expensive. Both Russia and Ukraine are important energy and food exporters, and their industries produce important industrial factor inputs. For example, a large part of the world's nickel and palladium production comes from Russia. Ukraine is the world's largest producer of neon. Likewise, metals relevant to industry such as iron, steel, aluminium, copper, platinum, or titanium are produced in the two countries. Due to the volatility of the prices for these raw materials, many industrial companies are facing great planning uncertainty. Various countries have also reduced imports of Russian crude oil and natural gas or are discussing such steps. Energy supply is also a challenge for Switzerland in connection with the war in Ukraine.

Except for banks, the indirect effects of the war are more significant for all sectors than the direct consequences of the sanctions.

Has the Russian invasion of Ukraine already had an impact on your company's activities, or is your company being affected by the sanctions against Russia?



Other sectors for which more than 10 responses were received have been included above.

According to a survey conducted by *economiesuisse* at the beginning of March this year, every second Swiss company participating in the survey is affected by the economic impact of the war. In addition to the war-related difficulties with the procurement of raw materials, Western sanctions such as restricted payment transactions with Russian banks or export bans, and the distortions on the energy markets are also burdening companies.



Swiss companies' *humanitarian engagement*

The tragedy of the war in Ukraine shows the fundamental importance of peace to everyone. At the same time, it underlines the urgent necessity of humanitarian relief in the affected areas and along refugee routes. Unfortunately, such aid and support will very likely continue to be needed in the medium and long term. A first qualitative survey of member companies conducted by *economiesuisse* in March 2022 confirms: In addition to the Swiss government, aid organisations and private individuals, many Swiss businesses are also directly involved. 28 companies from all relevant sectors gave their views on their humanitarian engagement in the context of the war in Ukraine. The vast majority of them - medium-sized companies and global corporations - have subsidiaries in Ukraine or in neighbouring countries. The willingness to help is immense, not only among companies but also among their employees. In Switzerland, companies provide support for refugees arriving from the war zone. According to data from the State Secretariat for Migration SEM of May 10, 2022, 47,980 people were registered in Switzerland. The labour market in-

tegration of the refugees is progressing well. But companies are also providing direct support for employees and the suffering population in Ukraine and the border areas nearby.

Swiss companies help with financial and in-kind contributions

Companies, employees, and customers provide substantial financial donations. These donations are made either directly to those affected in Ukraine or through aid organisations, foundations, or refugee aid. Companies also often participate in fundraising campaigns launched by their employees. One frequently used model is the so-called matching fund: donations from employees, customers or the public are doubled or tripled by contributing companies – often through their company foundations. As a result, sums in the millions are raised quite often. A short survey by *economiesuisse* found that participating companies have donated over CHF 27 million so far but reliable estimates of the total volume of donations from the entire Swiss economy are not available. On average, companies participating in the survey donated more than one million francs. In addition to their financial support, companies from a wide range of industries are also continuously delivering large quantities of relief supplies to the affected areas. 44 percent of companies surveyed also donate goods. The value of these donations exceeds the amount of financial donations many times over. In-kind donations include several million packages of medicines and diagnostics, hundreds of tonnes of food, clothing, blankets, torches and more. The goods are distributed partly by the companies' own employees at their facilities or through relief organisations and the local civilian population.

Encourage volunteering for humanitarian engagement

Several companies also encourage their employees to volunteer. This includes, for example, welcoming refugees into their homes during paid working hours or granting extra holidays for humanitarian engagement. Several companies also stated that they make unused company buildings and guest flats available as accommodations for refugees. Moreover, there are newly created or currently planned projects that support people seeking protection in their job search, training, and childcare. There were also reports of spontaneous actions by individual employees who volunteered, e.g. to transport refugees in company vehicles from the border regions to safe places in neighbouring countries.

Help for local employees

For security reasons, branch offices and production facilities of numerous companies in Ukraine had to be temporarily closed. However, the surveyed companies are making efforts to help employees and their families wishing to leave the country to do so. They are in constant contact with employees who have to or want to stay on site. Wage payments are maintained, and the companies provide material and financial support. Some companies provide housing for employees who have fled to neighbouring countries or to Switzerland and provide support to those who want to continue working while abroad. Ukrainian employees who were already living outside Ukraine before the outbreak of the war are also assisted. They receive donations in kind and financial resources from staff and supervisors when they take in family members or friends who have fled. In Switzerland, as well as in border areas and in Ukraine, services like support centres and hotlines have been set up to provide psychological assistance.

The Swiss business community pitches in – examples

Medicines: Roche and Novartis

As emergency aid, Novartis supported the three humanitarian aid organisations – International Red Cross and Red Crescent Movement, Save the Children and the International Rescue Committee – with an initial donation of USD 3 million in total. In addition, more than one million packs of antibiotics, painkillers, cardiovascular and oncology medicines worth USD 25 million have been donated so far for the medical care of people in Ukraine and border areas. Roche already donated 150,000 packages of an antibiotic and 4,600 packages of special medicines, including for the treatment of influenza and various types of cancer. Roche also donated reagents and consumables for automated testing of blood donations and diabetes management. In addition, Roche employees in the country affiliates support Ukraine and refugees from Ukraine with specific aid offers.

Nutrition: Nestlé

Nestlé is actively involved in helping the people of Ukraine. Every week, the company delivers essential nutrition products such as water, baby food, soups or noodles worth more than one million Swiss francs. So far, more than 50 million portions have been provided. At the same time, Nestlé is trying to maintain local operations as much as possible. According to Nestlé, 60 percent of the pre-war volume can currently be provided. Nestlé employees around the world are standing together, showing solidarity, and making joint donations to the International Federation of the Red Cross and Red Crescent. The total amount donated for Ukraine will be matched by Nestlé. In some countries, Nestlé employees are hosting people who have fled Ukraine. In addition, many employees are initiating and participating in local relief efforts in various countries. For example, local employees, with the help of defence personnel and volunteers, were able to deliver over 140 tonnes of instant products to people seeking protection in Kharkiv. Nestlé delivers 100 pallets of much-needed food every day to people in need on the ground.

Supporting employees on the ground: Daetwyler

Daetwyler Holding Inc. has around 100 employees at its production site in Ukraine. Immediately after the war started, operations had to be suspended. The company is in daily contact with the location managers and has so far been able to ensure ongoing salary payments. Financial support was provided to the local employees through the payment of three months' salary in March. Former and current staff members have founded the charity association help4Ukraine. The association uses company resources to support Daetwyler employees in Malyn and their families. At the beginning of April, the association held a collection week at all Daetwyler locations worldwide. This raised CHF 54,322. Daetwyler will double this amount donated by employees to CHF 110,000.

Immediate aid and support for the reconstruction: Weidmann

The Swiss industrial company Weidmann, which specialises in electrical engineering and medical technology, also has a production site in Ukraine. Around 600 people are employed there. When the war broke out, production had to be halted. Wages continued to be paid. In the first period, the company supported its employees if they wanted to leave to join family members in neighbouring countries. It was also possible to offer employment at sister facilities in the surrounding neighbouring countries. In the meantime, production has partially restarted and most of the employees have returned. The company also supports the local community itself. An association was founded for this purpose. Following the emergency aid, the focus is now on supporting reconstruction after the end of the war.

Refugees in Switzerland and Europe: Zurich and Z Zurich Foundation

The Z Zurich Foundation launched a global fundraising campaign to help victims of the crisis. It raised CHF 2 million (including matching from the Z Zurich Foundation) for the International Rescue Committee, International Committee of the Red Cross and Save the Children and made over 20 donations to local and international organisations. Separately, the Z Zurich Foundation is raising funds for programs to support the mental health and psychological well-being of young refugees. In the city of Zurich, rooms and infrastructure at the Zurich Development Centre have been made available for integration and language courses for Ukrainian refugees. Zurich is helping refugees navigate the employment market in Switzerland and is cooperating with local authorities on labour market integration with the aim of hiring Ukrainian refugees. In Barcelona, Bratislava and Krakow, Zurich is looking to fill IT vacancies with Ukrainians. Across Europe, employees are using paid volunteer days to support humanitarian efforts. Zurich has increased the number of volunteering days in many European countries. For employees and their immediate families hosting Ukrainian refugees, the Z Zurich Foundation has established a voucher scheme to help guests with the purchase of food, clothing, and other essentials.

Many other Swiss companies are making humanitarian commitments in connection with the war in Ukraine. For example, numerous companies have responded to Swiss Solidarity's appeal for donations, as can be seen on its website. While the course of the war in Ukraine is difficult to predict, it seems clear that the needs and challenges of the affected population will change – and likely increase – as the fighting continues. Humanitarian relief efforts need to prepare for the long haul.

Do humanitarian principles also apply to the civilian population of the aggressor?

International humanitarian law also protects the civilian population of the aggressor – in this case the Russian population. The question therefore arises how the sanctions measures against the Russian economy should be designed to comply with this humanitarian principle. However, there is a dilemma here. Clearly, life-saving medicines or basic food supplies are to be considered humanitarian goods and their delivery should not be completely stopped. The challenge, however, is that these must not fall into the hands of the government. Otherwise, the government could choose to deliver them to the warring troops. With this in mind, special distribution channels are set up to ensure that essential humanitarian goods are only made available to the civilian population.



Conclusion: ***Tragedy of war in Ukraine prioritises humanitarian aid***

The direct impact of the sanctions on bilateral trade relations with Russia and Belarus in the context of the war in Ukraine is minor. Nevertheless, individual companies with a strong presence in these markets are likely to be significantly affected. Overall, the indirect effects of the war in Ukraine are potentially more serious for the economy as a whole. These include logistical problems, supply chain disruptions (e.g., industrial input materials, raw materials, food, and energy sources) and increasing prices. Economic impacts, however, have taken a back seat in view of the humanitarian catastrophe in the war zone. Many Swiss companies have responded to the war in Ukraine with a major humanitarian commitment which is playing out in Ukraine itself, in Switzerland and along the refugee routes to Western Europe. Specifically, the support includes in-kind contributions such as medicines, food, clothing or living space for refugees. Considerable financial donations are also made to aid organisations and foundations. Various companies also allow their employees to volunteer during working hours. The brief survey by *economiesuisse* on the humanitarian engagement of Swiss companies in connection with the war in Ukraine shows that the private sector, in particular, can make a valuable contribution to alleviating the immediate hardship of the people affected in the war zones and on the run. Many companies are proactively engaged in alleviating the suffering of victims and take their social responsibility beyond pure business interests. It is to be hoped that the findings from the survey will

also motivate other companies to get involved – not least because the need for support is likely to increase as the war drags on.

Sanctions are in line with neutrality

Switzerland's Federal Constitution emphasises the importance of neutrality for its external security. Neutrality has also been internationally recognised since 1815 (Congress of Vienna). To parts of the public, Switzerland's sanctions against Russia are sometimes seen as a surrender of Swiss neutrality. Based on facts, this is not the case. Currently, Switzerland has sanctions in force against a total of 22 countries and two sanctions against individuals and organisations. Other neutral states have also taken sanctions against Russia and Belarus (e.g., Austria). Neutrality is not defined by the sanctions issue. Nor is the provision of "good offices" restricted by sanctions. For example, Switzerland is currently a protecting power for Russia in Georgia, for Georgia in Russia or for the USA in Iran. On the contrary, in view of the dramatic situation in Ukraine, Switzerland's non-response would be inconsistent with its neutrality and humanitarian tradition. Such behaviour would indirectly support the Russian war of aggression and would be incomprehensible in view of Russia's blatant violations of international law. However, this is precisely what a neutral Switzerland depends on, namely compliance with international provisions by the community of states.

The Ukrainian Chamber of Commerce and Industry wants to focus in general on the following important points for Ukrainian business on how foreign business can support economic recovery:

- 1) Support initiatives to improve economic relations between Ukraine and Switzerland;
- 2) Continue business contact and contracts with Ukrainian companies and not classify them as risk company;
- 3) Collaboration and co-investment in some manufacturing enterprises that suffered from military operation;
- 4) Social function, rehabilitation of schools, kindergartens, hospitals and etc.;
- 5) Strengthen collaboration or partnership between UCCI and economiesuisse, JCC, S-GE and other Swiss business organisations.

Yuriy Pechersky, Ukrainian Chamber of Commerce and Industry

A swift and lasting solution to the war in Ukraine is of humanitarian and economic importance

Despite the great importance of humanitarian support, it is essential to create sustainable prospects for local companies and employees as soon as possible. In the long term, foreign direct investment in Ukraine is also an important prerequisite to strengthening the local reconstruction and economic integration into global production, logistics and development networks after the dramatic collapse of economic activity because of the Russian invasion. This would also support the rapid economic recovery of the affected regions. It is to be hoped that Switzerland's bilateral economic relations with Ukraine can also continue their positive trend that existed until the war began. In view of the global economic disruptions, the great uncertainties in foreign policy and the dramatic humanitarian situation in Ukraine, politicians are called upon to do everything in their power to bring about a swift end to the war.