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# The Swiss Observer

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pectable Americans for massive tax evasion and securities fraud and, particularly, the use of Swiss banks as a haven for illicit money from organised crime.

But the numbered account wouldn't be so attractive to Americans if the American financial community didn't give its blessing to the operations of Swiss banks in the United States. In the story which has just been sketched, the broker who cashed the illegal money in the first place was an American.

There are understandable reasons why the Americans, however irritated they may be by the effects of Swiss banking secrecy and by the stubborn refusal of Swiss authorities to compromise over it, should not act too rashly if the present banking discussions with Switzerland were to fail. The American Treasury would like to keep Swiss co-operation in maintaining the international balance of payments and monetary security. The State Department (according to the "Herald Tribune") is intent on preserving good relations with the Swiss because they have been helpful in U.S. intelligence-gathering activities. U.S. banks and their allies, the brokerage houses, have a compelling financial stake in unhampered commerce with Switzerland. In 1968, Swiss banks bought and sold 11.3 billion dollars worth of U.S. stocks and bonds, and were by far the largest foreign traders.

American banks have themselves been enjoying Swiss banking secrecy by opening branches in Switzerland. 17 United States banks have filed applications to open offices in Switzerland in 1970 and the trend is expected to continue. These banks do not hesitate to advertise at home all the advantages enjoyed by their Swiss branches. They conduct highly profitable business which is legal in Switzerland but illegal in the United States, tax evasion and securities violations not being considered as crimes in Switzerland, whereas they are in the United States. Since Swiss banking secrecy can only be broken on a court order and because such an order would only be made during a criminal enquiry, there is no possibility for American authorities of asking U.S. banks in Switzerland to disclose their operations. This can be, and has been done in other European countries, including Germany, where banking secrecy is a tradition, but not spelled out in law.

The Americans are understandably irritated by this situation since tax, securities and postal violations are usually the only offences for which U.S. officials can successfully prosecute underworld and Mafia figures.

In this manner Swiss bank secrecy is considered as fostering the growth of a phenomenon that U.S. law enforcement officials consider highly corrosive to the social fabric: partnerships between supposedly legitimate businessmen and organised criminals for mutual gain.

The Swiss and the Americans are presently trying to arrive at a banking agreement. The Swiss cling to their banking secrecy, because it has earned them so much success and confidence. The Americans would like to negotiate a treaty following which they could ask for a court order to reveal the operations of American banks in Switzerland. Barring that, they would like to obtain some official Swiss co-operation in their fight against organised rackets. So far, the Swiss have not changed their position. Two of their negotiators, Mr. Pierre Nussbaumer, of the Political Department, and Mr. Kurt Markees, of the Justice and Police Department, have recently said in an interview that any Congressional action aimed directly at Swiss banks would jeopardise Swiss ratification of the treaty.

If these very delicate negotiations failed, the two countries might be led to take unilateral measures. Switzerland could restrict the activities of American banks at home and those of its own banks in the United States. America might officially recommend (or even prohibit) the use of Swiss banks and Swiss accounts. Congress could vote a bill giving American authorities additional means of investigation and enforcement, and strengthen the federal laws regulating the transactions between foreign banks and U.S. citizens.

At this stage, it is impossible to predict the outcome of the negotiations. It may depend on who would have more to lose by their failure and by the adoption of unilateral measures. At first glance, it appears that the Swiss have more to lose. Their banking secrecy would be useless if Swiss banks hadn't got a field where they could profitably invest the vast sums entrusted to them by Europeans, Asians, Africans and, (where the snag lies) Americans. These banks have relied on American companies more than anything else. It doesn't mean that their funds have all gone to America (there are plenty of profitable investments in Europe and elsewhere) but it does mean that they would run into serious difficulties if

## COMMENT

### THE SWISS-AMERICAN BANKING IMPASSE

Two months ago I read the following story in the "Herald Tribune":

*Last spring, the senior partner in a New York brokerage house was told by the vice-president of a Swiss bank with whom he regularly did business: "A fellow will come to your office in the next few days with 100,000 dollars in cash. Take it. The money's for us".*

*Several days later a man appeared with 100,000 dollars in cash in an envelope. The broker accepted it without demur and put the money in a safe. Others came and went until the broker had accumulated 840,000 dollars in cash.*

*The Swiss bank official flew to New York on one of his frequent trips to the United States to solicit business and to pick up this and other deposits.*

*Both he and the broker were summoned to the Manhattan office of Robert M. Morgenthau, U.S. Attorney for the Southern District of New York.*

*"Do you know what you've been doing?" they were asked. "No", the men replied in puzzlement.*

*"You've been taking payoffs from heroin".*

*The eyes of the banker and broker rounded in shocked surprise. "We didn't know that", they said.*

*"I thought it was something a bit illegal, maybe diamond smuggling", said the Swiss banker, "But I didn't know it was narcotics. If I had, I would never have accepted the money".*

This story illustrates a problem giving increasing concern to American authorities: the use of Swiss banks and Swiss bank secrecy by supposedly res-

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America were shut off. If this extreme possibility were to come about it would involve a re-channelling of the world's savings towards the U.S. through banks and brokerage houses outside Switzerland. This would mean the end of Swiss predominance in Continental banking. All this depends on how strongly the Americans feel the legal, criminal and financial consequences of the present set-up.

(PMB)

## SWISS NEWS

### FEDERAL

#### The unwanted refugees

Thirty Hungarian and Czech refugees escaped the Italian camp of Latina and entered illegally into Switzerland last Autumn. The Swiss police drove them back to the border but the Italians would not take them back. So, pending an agreement, they were interned in four so-called "work colonies" from which they have only recently been liberated. Work colonies are institutions where former prisoners, drunkards and drop-outs, unable to face the challenge of freedom, voluntarily live. The plight of the refugees was due to the agreement passed among countries harbouring refugees from eastern Europe which lays down that refugees may be accepted by the host country in which they arrive after their emigration. Refugees who had found asylum in one country were the responsibility of that country and could not enter freely into another one.

Although the Swiss authorities were only acting according to established immigration laws, there has been considerable indignation over the treatment received by these unwanted aliens.

#### The new Swiss tank

The "Swiss Tank 68" will be delivered a little late. This has prompted M. Gnaegi, head of the Military Department, to assure the Chambers that this lateness had absolutely nothing which tasted of the Mirage scandal. 460 million francs have been written down for the development and acquisition of this nationally-made weapon, which is to replace the traditional British-made "Centurion" tank equipping the Army. Prototypes have already been given to the forces for testing and a number of modifications have been suggested. Mr. Gnaegi said that these alterations would be performed within the limits of present financial possibilities and that the first production-tanks could come into service next year, and the last ones in mid-1974.

According to a "message" by the Federal Council on February 11th, the organisation of Swiss artillery will have to be overhauled following the introduction of the M 109, an American-built armoured and motorised cannon of which the Swiss have bought 140.

(ATS)

#### A military judge of enquiry wants the parliamentary immunity of Mr. Hubacher to be lifted

The "Florida" affair is not over yet. Last Autumn, as reported in these columns, Mr. Hubacher, a Socialist national councillor from Basle, attacked the mismanagement of the Florida early-warning radar system on the basis of the secret minutes of a meeting at the Dubendorf airbase which had come into his hands. The employee who had stolen the document was arrested but Mr. Hubacher, who was breaking the law in keeping secret documents in his possession, was protected by parliamentary immunity. The judge of enquiry, Captain Bossard, now wants this immunity to be lifted for the purpose of his enquiry. This, however, must be decided by a special *ad hoc* committee elected by the National Council and then ratified by the Chambers themselves. There is little chance that the members of Parliament would risk endangering their highly prized immunity by creating such an important precedent.

#### The export deposit is voted by the Council of States

In spite of the strong opposition of some councillors of State against the proposed 5% export deposit, the scheme was adopted after a brilliant performance by Mr. Celio, head of the Department of Finance. His main arguments were that export industries had expanded three to four times faster than the home-market industries during the last year. This had led to unsatisfiable demands on the building industries and a sharply increased need of imported manpower. Since exports were rising by 15%-20% a year, the export deposit could hardly bring them prejudice. The deposit was only temporary but inevitable in view of the direct strain of excessive exports on the economy.

### ANGLO-SWISS

The management of the British Leyland Motor Corporation's central office for Europe, which is at Laus-

anne, gave a reception which was honoured by the presence of Lord Stoke, director of B.L.M.C. and numerous political and industrial personalities.

An address by the manager of the Swiss branch reminded his audience that British Leyland was created in 1968 by the merger of the two most important groups in the motor industry of Great Britain and that the production of its 70 home factories accounted for 40% of the British market. 1,018,000 vehicles had been produced at home, 100,000 abroad in 1969. Total turnover was of one billion pounds, exports had risen 52% since 1967 and had amounted to 425,000 vehicles in 1969, more than half of which had been directed towards Europe.

#### Lord Mountbatten visits Switzerland

Lord Mountbatten of Burma, last viceroy of India and leader of the Far East front in World War II, has been invited by the Swiss Winston Churchill Foundation to deliver a speech at the main lecture hall of Berne University. The title of his lecture was "Winston Churchill as I knew him". During his stay in Berne, Lord Mountbatten was the guest of the General Staff at a reception given in his honour and, at a second function, was the guest of the Political Department at a dinner given in Wattenwyl House.

### CANTONAL

#### A hotel closes down in Lausanne

The Montana Hotel in Lausanne, one of the best family-run hotels in town, will close down because of financial difficulties. This closure highlights the necessity for hoteliers to adapt themselves to the changing requirements of tourism.

(ATS)

#### Lawyers unite

The Swiss Federation of Lawyers has decided to create an information office in order to improve the relations of the profession with the Press, the Radio and Television. Mr. Georg Krneta, a Bernese solicitor, has been

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