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Will Switzerland Go After Russian Oligarchs?

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As the sanction war escalates between the European Union and Russia, it appears that the Kremlin has few friends left on the continent. Still, neutral Switzerland has so far toed the line to some degree over isolating Russia.

There are good reasons for Switzerland to either impose or not impose sanctions of its own. But in the long run, it would be wise to back the EU's policies, especially if tensions increase. Doing so would not only be sound political and economic policy, but would contribute to squeezing some of Russia's top businesses.

Switzerland's financial clout
will it give it strong leverage
against Kremlin insiders.

So far, Bern has pursued a very cautious policy, preferring to simply make sure that Switzerland is not used to circumvent Western sanctions rather than apply any of their own.

On Aug. 5, after a fresh package of EU sanctions against Russia, Switzerland banned financial institutions from doing new business with 26 Russian citizens and 18 companies, adding to a pre-existing list. Most of those affected, though, were not members of Russia's business elite, but rather pro-Russian separatists in eastern Ukraine or members of Russia's state security services.

The Swiss have some reasons to maintain their ties with Russia. The Swiss government has repeatedly highlighted that due to the current Swiss presidency of the Organization for Security and Cooperation in Europe, it prefers to avoid joining the sanctions against Russia in order to keep political leverage. This stance allows Switzerland to maintain credibility as a mediator and to play a constructive role in the conflict, being accepted by all parties concerned as neutral and independent.

And while political and economic elites share the EU's concern over Ukraine, leading politicians argue that Switzerland should only join sanctions of organizations it is actually a member of, such as the United Nations or the OSCE.

Economic ties between Switzerland and Russia are also a factor. Although trade with Russia is very small — with only 1.5 percent of Swiss exports going to Russia, and only 0.3 percent of imports coming from the Russian Federation — there is considerable Swiss investment in Russia that could be affected by Russian retaliation.

More importantly, however, Switzerland may gain much by keeping itself open to Russian business. As Russian capital flees EU markets, Switzerland remains a key resource-trade and financial hub for Russian business. Many Russian companies have branch or head offices in Switzerland, among them Rosneft, Novatek, Gazprom, Gazprombank and Litasco, the trading arm of oil major LUKoil. According to a report by the Swiss Federal Institute of Technology Zurich, the trade of Russian resources directly contributes about 1 percent to Switzerland's GDP. If Russian business moves away from London, the Swiss role as a financial hub might become even more important for Russia.

Still, the paramount economic consideration is obviously the very close links between the Swiss and the EU economy. Considering the international involvement of Switzerland's banks, it can simply not afford to run against EU and U.S. policies. The way sanctions against Iran have been imposed and the recent record fine against BNP Paribas bear witness that there can be strong pressure to go along with major Western partners.

And while Switzerland is not an EU member state and despite the many issues over which Brussels and Bern quarrel — freedom of movement being the most prominent one — Switzerland has very close economic and political ties with the EU. The bloc is and remains Switzerland's main trading partner, with an overwhelming 74 percent of imports coming from and 54 percent of exports going to the EU. Switzerland will not let Russia get in the way of its far more important relationship with the EU.

For the time being, and given the type of sanctions imposed by the EU so far, Switzerland is still in the position to pursue an autonomous line. However, should the EU and U.S. expand sanctions on the banking sector, Switzerland will have trouble not to join these measures.

Once it does, Switzerland's financial clout will it give it strong leverage against some Kremlin

insiders. A case that gained a lot of visibility in this context is that of Gennady Timchenko and the Cyprus-registered oil trading company Gunvor, with its head office in Geneva.

Timchenko, considered to be a Kremlin insider, already is on a U.S. sanction list but does not figure on the European and Swiss one. He sold his stakes in Gunvor to an associate one day before U.S. sanctions on Gunvor took effect. Nonetheless, Timchenko, who resided in Switzerland since 2002 before his return to Russia and who also holds considerable assets in Novatek, would certainly be affected if Bern were to include him or Novatek on a sanction list.

In the long run, Switzerland can hardly afford to stay outside the sanctions decided by its major partners, both because of the possible pressure it might face but more importantly because of its own values and interests. The influential Swiss employer association Economiesuisse succinctly argued that "the application of international law is also in the interest of the economy."

Russian policies in Ukraine do not seem to fit the bill of adherence to international law, adding more insecurity to an already volatile region. Hence, it is not only for keeping up credibility and reputation among its Western partners that sooner or later Switzerland might fully share the general Western policy line. When they do, it will significantly constrain Russia's top businesses.

This article was amended on Sept. 9 to specify Gunvor as being registered in Cyprus.

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