

Managing the franc

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The Basel chemical companies earned most of their revenues abroad and incurred a large part of their costs in Switzerland, where their headquarters, research laboratories and many of their production plants were located. They were therefore exposed to the exchange rate of the Swiss franc. When the franc appreciated, their foreign revenues were worth less in francs, while their Swiss costs became more expensive relative to those of their foreign competitors.

The management of currency risk became one of the principal financial tasks of the companies. They used several methods: they located production and research abroad, so that their costs were incurred in the same currencies as their revenues; they financed their foreign subsidiaries in local currencies; they hedged their foreign currency revenues through forward contracts with banks; and they set their prices in foreign markets with the exchange rate in mind. The treasury departments of the chemical companies, which managed these operations, became among the most sophisticated in Switzerland and were important clients of the foreign exchange departments of the Basel banks.¹

The strength of the franc has been a constant challenge for the Basel industry, from the gold bloc of the 1930s to the minimum exchange rate of 2011 to 2015. It has also been a stimulus to efficiency and innovation, since companies that cannot compete on price must compete on quality and novelty. The pharmaceutical industry, whose products are protected by patents and priced according to their therapeutic value, is less sensitive to exchange rates than industries that compete on price, which is one reason why it has thrived in a country with a strong currency.

Managing the franc

1 Notes

1. On the currency risk management of the Basel chemical and pharmaceutical companies (natural hedging through foreign production, local financing, forward contracts), see the annual reports of the companies and the literature on corporate treasury management. To be verified. ↩

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