

Logistics, Shipping and the Fashion Valley: Ticino's Distribution Economy — overview and summary

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Between the motorway exit at Mendrisio and the customs post at Chiasso-Brogeda lies a strip of land of a few square kilometres. For about three decades a significant part of the world's luxury fashion passed through its Swiss warehouses on the way from Italian workshops to shops in Europe, America and Asia. Gucci handbags made in Tuscany, suits cut in the Biellese and sportswear designed for American groups were stored, labelled, invoiced and dispatched from logistics halls in Cadempino, Sant'Antonino, Stabio, Coldrerio and Mendrisio. The Ticinese press called this cluster the "Fashion Valley". By one widely quoted estimate, it counted about 8,000 employees and a business volume of roughly CHF 10 billion a year in 2013. Its share of the canton's corporate tax revenue was put at more than a third.¹ Five years later the largest single member of the cluster, Kering's Swiss trading and logistics subsidiary Luxury Goods International (LGI), began to move its activities to Italy. In May 2019 the Kering group paid the Italian tax authorities EUR 1.25 billion to settle a dispute over the taxation of Gucci's sales through Switzerland.²

This chapter asks what the distribution economy of Ticino consists of, why it settled in the south of the canton and what legal risks attach to it. The distribution economy is understood here in a broad sense. It includes the trading and logistics companies of fashion and luxury groups and the forwarding agents and customs brokers of the Chiasso-Stabio-Mendrisio belt. It also includes the customs warehouses and free zones that allow goods to wait in Switzerland without paying duty, the freight corridor through the Gotthard and Ceneri base tunnels, and the ship-owning, shipmanagement and chartering firms that operate from Lugano. The argument is that these activities form a single economic system with the commodity trading houses treated in Chapters F.I and F.II. In each case a Swiss company buys, holds title to and resells goods that are produced and consumed elsewhere, and in each case its profit depends on functions that

must be shown to be performed in Switzerland. The tax and reputational risks of the fashion cluster and of the trading houses are therefore variations of the same problem. Italian tax law addresses it through the concepts of the hidden permanent establishment and of *esterovestizione* (fictitious foreign residence).

The chapter proceeds in nine steps. It first measures the distribution economy and then describes the rise of the Fashion Valley, the reasons for its location and its central legal episode, the Italian investigation of Kering and Gucci. It follows the departures that came after the case and the political debate about low wages and *frontalieri* (crossborder commuters) that accompanied them. It then turns to the physical infrastructure of the border, namely the logistics belt of the Mendrisiotto, the customs warehouses and free zones under Articles 50 to 67 of the Customs Act and the Gotthard freight corridor. A section on shipping and ship management in Lugano covers the Swiss maritime flag, the guarantee losses of 2017 and marine insurance. The chapter closes with the tax, substance and reputational risks of distribution structures and a practitioner's checklist. The history of commodity trading and the Lugano Commodity Trading Association (LCTA) belong to Chapter F.I. The corporate tax regime, Pillar Two and the substance requirements of trading companies are treated in Chapter F.II, sanctions and export controls at the southern border in Chapter G.II.

1 Conclusion

The distribution economy of Ticino grew out of the oldest function of the territory, the transit of goods between Lombardy and the north. The forwarding houses of Chiasso, the free zone of 1925 and the customs brokers of the Mendrisiotto prepared the ground on which, from the late 1970s, Italian and international fashion groups built their trading and logistics companies. At its height around 2013 the Fashion Valley was estimated to employ about 8,000 persons and to pay about CHF 90 million of taxes a year. It rested on four supports: the pre-2020 cantonal tax regimes, the proximity of the Italian production districts, the *frontalieri* of Como and Varese and the customs infrastructure of the border. The largest company of the cluster, Kering's LGI in Cadempino, employed about 900 persons in 2018 and was described as the canton's principal taxpayer.

The Kering case of 2017 to 2019 showed the weakness of the model. The Italian authorities treated LGI's business as an Italian business conducted through a hidden permanent establishment, and Kering paid EUR 1.25 billion in May 2019 to settle the claims for 2011 to 2017. In the following

six years the group moved its logistics to Trecate and its administration to Italy. Armani and Prada had already left in 2016, Tom Ford followed in 2019, and Zegna moved part of its production back to the province of Novara. What remains is a smaller and different cluster. Its centre is VF Corporation's regional headquarters in Stabio, with more than 1,100 employees, together with the Ticino companies of Hugo Boss, Capri and other groups and the forwarding and customs sector of the Mendrisiotto, which continues to serve the 500,000 trucks that cross Chiasso-Brogeda every year.

The shipping sector tells a parallel story on a smaller scale. Lugano is home to shipoperating companies such as Nova Marine Carriers and to the chartering desks of its trading houses. The Swiss flag, by contrast, has almost disappeared from the oceans since the guarantee losses of 2017, and no Swiss-flag ship is operated from Ticino. In both sectors the legal lesson is the same. A Swiss company that buys, holds and resells goods produced and consumed elsewhere earns the profit of those activities only if it performs them in Switzerland. Since 2024 Italian law tests this with its new residence criterion of principal day-to-day management. The practitioner's task is to make sure that the functions, the people and the decisions are where the profit is booked.

2 In five sentences

The Fashion Valley of the Mendrisiotto and the Lugano area, which grew from Zegna's arrival in the late 1970s and Gucci's LGI in Cadempino in the mid-1990s, was estimated in 2013 to employ about 8,000 persons and to pay about CHF 90 million of taxes a year. It relied on the pre-2020 cantonal tax regimes, on the proximity of the Italian production districts, on a workforce of *frontalieri* paid well below the Swiss median and on the customs warehouses and forwarding agents of the Chiasso border. In May 2019 Kering paid the Italian tax authorities EUR 1.25 billion, of which EUR 897 million was tax, to settle claims concerning a hidden permanent establishment of LGI in Italy and the transfer prices between LGI and Gucci's Italian company, after which it moved its logistics to Trecate and closed its Ticino operations by 2026. Free zones and open customs warehouses, governed by Articles 50 to 67 of the Customs Act, were tightened after the Federal Audit Office's report of 2014, while the Swiss-flag ocean fleet shrank to eleven ships after the guarantee losses of CHF 204 million in 2017. Distribution and trading structures with Italian links must now defend their profit against Italian rules on transfer pricing, permanent establishments, *esterovestizione* and mandatory disclosure, and only real functions performed in Ticino provide that defence.

3 Conclusion of Part F

Part F has followed Lugano's development as a trading centre from the transit trade of the Gotthard route to the trading houses, logistics companies and shipping firms of the present. Chapter F.I traced the rise of commodity trading in Lugano, with its specialization in steel, metals, agricultural products and energy, the gold refineries of the Mendrisiotto, its links to Italian and Eastern European markets and its organization in the Lugano Commodity Trading Association. It placed Lugano beside Geneva and Zug in the national statistics on transit trade and described the ecosystem of banks, inspection firms, shipping companies and insurers around the traders. Chapter F.II analysed the law of the trading house: its legal forms and holding structures, the corporate tax reform of 2020 and Ticino's cantonal rates, the introduction of Pillar Two in Switzerland, transfer pricing and Italian controlled foreign company rules, the standard contracts and Incoterms of the trade, Swiss law and arbitration as the preferred legal framework, and the substance that a trading company needs in Switzerland.

The present chapter has added the distribution economy of fashion and luxury groups, the logistics belt of the Mendrisiotto, the customs regimes for stored goods and the maritime sector. Taken together, the three chapters show a single economic model in several variants. A Swiss company buys goods produced elsewhere, holds title to them for a time and sells them to customers elsewhere, often without the goods touching Swiss soil. Its profit is taxed in Switzerland under rules that were once particularly favourable and are now close to the international minimum. The model depends on the functions that the Swiss company performs, on the people who perform them and on the acceptance by foreign tax authorities, above all the Italian ones, that those functions are really Swiss.

The three chapters also show that the risks of the model go beyond taxation. A trading house or a distribution company needs finance for its inventory and receivables, and that finance is provided by banks that must apply the rules of trade finance and the documentary instruments of international commerce. Its goods and counterparties may fall under sanctions and export controls, which have become central to the commodity trade since 2014 and especially since 2022. Its payments pass through the financial system and must satisfy the anti-money laundering rules that apply to banks, fiduciaries and dealers. Its ownership and control are increasingly subject to transparency rules and to the exchange of information between tax authorities. Part G therefore turns from the business of the trading centre to the compliance architecture that

surrounds it. Chapter G.I describes trade finance in Lugano, its banks, instruments and risks. Chapter G.II treats sanctions and export controls at the southern border, including the Swiss adoption of the European Union's measures against Russia and their effect on Ticino's traders and banks. Chapter G.III examines organized crime, money laundering and the role of the Ticino authorities and the Federal Criminal Court in Bellinzona. Chapter G.IV closes the Part with transparency, tax cooperation and beneficial ownership, the legal instruments that have replaced the discretion on which the financial and trading centre of Lugano was once built.

4 Notes

1. Tio.ch, "La Fashion Valley è arrivata alla fine?" (7 October 2018, updated 22 May 2019), <https://www.tio.ch/ticino/focus/1310700/la-fashion-valley-e-arrivata-alla-fine> (about 8,000 employees in 2013, business volume of about CHF 10 billion, about CHF 90 million of tax revenue a year, described as more than a third of cantonal corporate tax revenue). The figures are press estimates and are not official statistics. ↩
2. Il Fatto Quotidiano, "Kering pagherà 1,25 miliardi al fisco dopo indagine di Gdf e Procura di Milano" (9 May 2019), <https://www.ilfattoquotidiano.it/2019/05/09/kering-paghera-125-miliardi-al-fisco-dopo-indagine-di-gdf-e-procura-di-milano/5167127/>; Radiotelevisione svizzera (RSI), "LGI, via 150 impieghi da Cadempino" (8 October 2018), <https://www.rsi.ch/info/ticino-grigioni-e-insubria/LGI-via-150-impieghi-da-Cadempino--1109368.html>. ↩

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