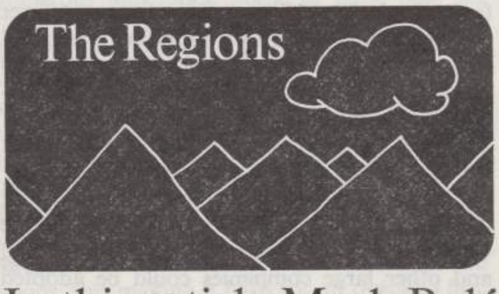

The Channel Islands and the European Community

In this article Mark Boléat examines the effects on Jersey, Guernsey and the other Channel Islands of the special EEC terms negotiated for them by the British Government

The Channel Islands are unusual territories in many respects. They comprise two large islands, Jersey and Guernsey, together with a number of smaller dependencies of Guernsey; Alderney, Sark, Herm, Brechou, Jethou and Lihou. They are situated off the French coast in the Bay of St. Malo and have strong connections with France. However, the islands have been British for over 900 years and are proud of their links with the Crown.

The relationships that the islands have with each other and with the UK are complicated. Jersey and Guernsey are not linked to each other in any legal sense while Guernsey does have considerable control over the smaller islands. The two large islands have their own systems of laws which frequently differ in detail. The British Government is responsible for the defence and external affairs of the islands and, as a matter of strict law, Westminster can legislate for the Channel Islands on any matter. However, by convention the islands have complete internal autonomy, including in respect of taxation.

The favourable natural conditions that the islands enjoy, scenic beauty, good soil and an agreeable climate, together with the industry of the inhabitants and local autonomy, have led to high and rising living standards. In money terms, Jersey's income per head is some way above that of the UK while that for Guernsey is on a par. Moreover, the pleasant living conditions do much to make for a high quality of life.

However, between 1967 and 1971 the prosperity of the Channel Islands was threatened

No petrol shortage here

by an event outside of their control: the entry of Britain into the European Community. This article examines the nature of that threat and the way that it was overcome.

It comes as a surprise to outsiders that Jersey and Guernsey differ so much in economic structure. While the islands do depend on the same basic industries they vary in the extent to which they do so.

Tourism is important in both islands but the industry accounts for over 40% of national income in Jersey, compared with about 17% in Guernsey. The smaller islands also depend heavily on tourism. Some 600,000 tourists are attracted to Jersey annually and 200,000 to Guernsey with fine weather, beautiful scenery and the cheapness of some commodities being the main attractions.

Agriculture and horticulture are also important, but for this industry the relative importance of the islands is reversed. Some 20% of the working population earn a living from this source in Guernsey compared with only 10% in Jersey. Guernsey's main crops are tomatoes and flowers and these account for 80% of the island's total visible exports. In Jersey, potatoes are the most important crop followed by tomatoes and flowers. Agriculture and horticulture have flourished in the islands because of favourable natural conditions and also because the produce has traditionally been able to enter the UK market free of duty while competitive produce from the Continent has had to face a significant tariff barrier.

Finance

The third major industry in the islands is *finance* and here Jersey is the more important. Neither island levies any form of wealth or capital gains tax and the basic taxation on income has been kept low. Their tax structures, together with the fact that the islands are part of the sterling area, have meant that they have attracted companies, financial institutions and wealthy residents and these provide employment and contribute much tax revenue to the Governments of Jersey and Guernsey. Banking accounts for some 7% of domestic income in Guernsey and about 10% in Jersey. In both islands wealthy residents make considerable tax payments – estimated to be 25% of the total in Jersey.

Given the structure of the Channel Islands economy it is not difficult to see why British entry into the Community was viewed with consternation in the islands. Jersey, Guernsey and the other islands are prosperous because they are different from, while having strong links with, the UK. Thus the finance industry depends on tax autonomy together with monetary union with the UK; tourism partly depends on cheap goods together with ease of transport to Britain; and agriculture and horticulture depend on favourable weather conditions and protected entry into the British market. The European Community aims to reduce the differences between States and would therefore strike at the roots of the prosperity in the islands.

Theoretically, under Article 227-4 of the Rome Treaty, British entry into the Community would automatically mean that the islands would have to follow suit: 'The provisions of this Treaty shall apply to the European territories for whose external relations a member state is responsible.' Notwithstanding this provision it was made clear by the British Government that the island authorities could elect to remain outside the Community if they so desired.

Harmful Consequences

However, being wholly in or wholly out of the Community were not prospects that were relished in the Channel Islands. If the islands went in without special terms the following harmful consequences were foreseen:

1 Indirect taxation. It was accepted in the islands that entry would mean that VAT would have to be introduced. As the islands do not have any general indirect taxation this would mean that prices would rise by the full amount of the tax. This would have been particularly serious for the tourist industry which already faces strong competition from the Continent. For this reason the prospect of a VAT was more feared in Jersey than in Guernsey. In both islands the tax would have been very costly from an administrative point of view.

The possibility of the origin system (i.e. the abolition of tax frontiers) being introduced was viewed with even more alarm. The islands' visible imports considerably exceed their visible exports and the origin system would have meant that the islanders would be making considerable net tax payments to foreign Governments. However, these fears were probably not fully justified. There was at the time, and still is, no prospect of tax frontiers in the Community being abolished in the foreseeable future and also, when this does happen, a 'common purse' arrangement will probably be introduced to ensure that tax payments go to the country of consumption.

The harmonisation of excise duties presented similar problems. Harmonised rates, by removing the differential between UK and Channel Island prices, would reduce the attraction of the islands as a tourist resort and they would also deprive Jersey and Guernsey of the not inconsiderable tax revenue derived from people buying their duty-free allowances in the islands.

2 Direct taxation. Any move to harmonise direct tax provisions naturally poses a threat to the finance industry with Jersey again being the main sufferer. Although action in this field is a long way off the mere prospect of it would have affected confidence in the islands.

3 Free movement of labour. The physical and financial attractions of the Channel Islands have led to massive immigration which have severely taxed resources in both Jersey and Guernsey. To regulate the problem strict controls are maintained over the entry of aliens and even stricter controls over house purchasing with priority being given to residents. It was feared that entry into the Community would mean that this discriminatory policy would have to be ended although perhaps the island authorities were unduly pessimistic as to the possibilities of special arrangements.

4 Agriculture and horticulture. Both islands feared the loss of protection in the British market, with Guernsey having most to lose because of the greater value of her horticultural exports. The dairy industry faced a more specific problem. Under Community rules it was feared that subsidies to dairy farmers would have to be ended and that the ban on the importation of milk would have to be lifted. If this happened the dairy industry would have been in considerable difficulties in both islands.

The consequences of opting to be completely outside of the Community were equally unattractive:

1 Britain would have to levy the common external tariff (CET) against the exports of the islands. It was estimated in Jersey that the tariff on horticultural exports alone would amount to some £1.5m p.a. Guernsey would have been even harder hit because of her greater reliance on horticultural exports. In both islands the loss of competitiveness, especially as Continental produce would be able to enter the UK free of duty, would have led to a serious rundown in the horticulture industry. The effect of this in Guernsey would have been little short of disastrous.

2 As integration progressed it would be unlikely that the islands would be able to retain their

Statistical Tables

Basic Facts

	Area (acres)	Population (1971 census)
Jersey	28,717	72,691
Guernsey	15,654	51,458
Sark	1,284	584
Alderney	1,962	1,686

Exports 1969

	Jersey value £000	Jersey %	Guernsey value £000	Guernsey %
Fruit and Vegetables	6,777	36	9,751	53
Bulbs and Flowers	1,478	8	4,040	22
Others	10,560	56	4,515	25
Total	18,815	100	18,306	100

Imports 1969

	Jersey value £000	Jersey %	Guernsey value £000	Guernsey %
Foodstuffs	11,812	28	6,376	27
Basic Materials	3,145	8	827	4
Fuels and Lubricants	1,873	4	2,079	9
Manufacturers etc.	25,175	60	14,373	60
Total	42,005	100	23,655	100

monetary union with the UK and the ending of this relationship would seriously affect the finance in both islands.

As being completely in or completely out of the Community were not prospects that were relished in the islands, the authorities decided that they had to press for special arrangements. In Jersey an official report, published in 1967, concluded: 'If the UK enters the Community, grievous results would flow for the island unless special arrangements are made.' The recommendation of the report, later accepted by Jersey's parliament, was: 'In the event of the United Kingdom entering the EEC, it is the wish of the island to remain outside the EEC but that it should be included within the CET, or failing that, that the island should retain its ancient right to export goods into the UK free of duty.' If it came to being wholly in or wholly out, opinion in the island favoured the latter with tourism and possibly finance (depending on the extent to which the industry was affected by Britain's entry into the Community) expanding as horticulture and agriculture contracted.

Guernsey's View

Guernsey's approach was slightly different – because of her greater reliance on horticulture. An official report concluded: 'We cannot live if we are excluded from our present and potential markets for horticultural produce or any other exports.' Guernsey accepted that she would probably have to go into the Community but it was hoped that special arrangements could be achieved in respect of taxation, agriculture and horticulture and immigration.

Special arrangements have been negotiated for other areas and the Jersey authorities looked at the cases of Heligoland, Campione, St. Gingolph, Monaco and Malta among others. However, with the exception of Monaco, these States are all fairly poor and isolated communities. It was felt that the Channel Islands, being relatively prosperous, would have far more difficulty in obtaining special terms. This view was confirmed by a letter which the island authorities received from the British Government in 1967 which described the possibility of modifications to Article 227-4 as being 'remote'.

General De Gaulle's second veto in 1967 left the matter dormant but with the recommencement of negotiations in 1970 the island authorities worked intensively to put their case to the British Government. They were not helped in this respect by particularly uninformed criticism from a number of small but highly vocal pressure groups in the islands, with Jersey being the main sufferer.

The question of the Channel Islands was one of the last to be discussed in the negotiations; indeed the British White Paper on the terms of entry was published before serious discussion even started. The White Paper itself was promising, recognising the unusual position of the islands and stating that the Government was 'seeking for the islands arrangements short of full membership which would provide for an exchange of reciprocal rights and obligations between the Community and the islands.'

Work continued behind the scenes and in the November of 1971 it was suddenly announced that agreement had been reached. The terms were better than the islands had dared hope for and were greeted with considerable relief. The main features of the terms, now embodied in Article 227-5 of the Rome Treaty and the Treaty of Accession, were:

i) There would be free trade in industrial goods between the islands and the Community and the islands would apply the CET.

ii) For agricultural goods there would similarly be free trade and the Community's system of levies on the imports from third countries would be applied.

iii) The islands would be exempt from all other Community regulations except those necessary to apply the above.

iv) The rights of islanders in the UK would be protected but the islands would not be permitted to discriminate between British residents and visitors and the nationals of other Community countries.

v) A safeguard clause permitted any problems to be dealt with.

The generosity of the terms perhaps reflect the Community's desire to be flexible in order to prevent the interests of small States being harmed. The Six were probably content to allow the Channel Islands to continue their special relationship with the UK as they could see little in this that could do any damage to the Community.

Any doubts as to the desirability of the terms were dispelled when the British negotiator, Mr. Geoffrey Rippon, visited the islands a few days after the conclusion of the negotiations. He told the Jersey Parliament that it would 'be free to maintain those features which strongly distinguish life in the island from life in the UK.' On taxation, Mr. Rippon was specific: 'Your fiscal autonomy has been guaranteed. I can say to you quite categorically that there will be no question of your having to apply VAT or any part of Community policy on taxation.' Mr. Rippon was himself in no doubt as to the desirability of the terms: 'I cannot on this occasion conceal from you my firm belief that they could not have been better.'

The Choice of Independence

Guernsey's Advisory and Finance Committee and Jersey's Constitution and Common Market Committee recommended the terms to their respective parliaments. In similar reports they observed that the alternative was complete independence which implied:

i) The islands would have to negotiate a new constitutional relationship with the British Crown in which they would have to assume responsibility for conducting their own external affairs and for defence.

ii) All exports to the Community, including Britain, would be subject to the CET and other levies.

iii) The islands would cease to be part of the UK for exchange control purposes.

iv) Channel Islanders would lose their preferential right of access to work in the UK.

The island parliaments duly approved the terms with only one dissenting voice in Jersey and unanimously in Guernsey. On January 1, 1973 the Channel Islands joined the European Community content with their status of being 'in but half out'.

Although the Channel Islands are exempt from nearly all Community regulations and policies the islands can be affected to the extent that these change the relationship between them and the UK. In the foreseeable future the main areas of concern are:

1 Agriculture and horticulture. As was inevitable Channel Island farmers and growers will have to face much stiffer competition in the UK market as tariff barriers against the islands' Continental competitors are removed. However, serious problems have not yet arisen as the tariffs will not be finally abolished until 1978. It is also true that the depreciation of the pound has worked to the advantage of producers in the islands. The rising cost of feedingstuffs and uncertainty with respect to milk are also causing concern. On the other hand the lowering of tariff barriers on the Continent against Channel Island produce may have desirable effects although growers in the islands seem doubtful that they have the resources to take advantage of the situation.

2 Inflation. Any inflationary effects, particularly with respect to food, in Britain as a result of entry into the Community will be transmitted to the islands. Besides adversely affecting the islanders this will reduce the competitiveness of the islands as tourist resorts. However, again the depreciation of the pound may be an offsetting factor in that it will enhance the attractions of Jersey and Guernsey *vis-à-vis* the Continent.

3 Excise duties. The Community's proposed harmonisation of excise duties poses a threat both to tourism and to tax revenue in the islands. Any harmonisation must inevitably mean a reduction in the duty on alcohol and tobacco in the UK and this will sharply reduce the differential between Channel Island and UK prices. This will make the islands less attractive as a tourist resort for the British and it would also reduce the purchase of tax paid alcohol and tobacco in the islands by UK visitors.

4 Tax havens. Any direct action by the Community against 'tax havens' may affect the islands. However, as yet, the situation is unclear. The Commission's report on the subject was vague and it is too early to draw any firm conclusions. The Commission pointed out that any clampdown on Luxembourg would force money elsewhere including the Channel Islands. The Report concluded that common action must be taken against all tax havens including the Channel Islands and the Isle of Man. However, as the fiscal autonomy of the islands has been guaranteed the Community could only act by stopping money leaving the Nine for these centres and this is likely to prove difficult. It may be the case that the Community will accept that it is advantageous to have an offshore financial centre in order to prevent money moving further afield.

5 Economic and Monetary Union. Any removal of exchange controls between Britain and the rest of the Community will work to the advantage of the islands as financial centres. However, there is no indication as yet that the Community's free movement of capital will fully extend to the islands.

It was inevitable that Britain's entry into the Community would adversely affect the Channel Islands with Guernsey being the main sufferer. However, the islands have been fortunate in that the British were prepared to press for special arrangements and that the Six realised the consequences if these arrangements were not forthcoming. Given the terms that were negotiated there seems to be no reason why the Channel Islands should not be able to overcome the problems that they face as a consequence of Britain joining the Community.