

## **The UK and the Crown Dependencies**

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The world does not stand still; and the Channel Islands cannot expect to be unaffected by developments beyond their shores. A concerted drive by major states to tighten controls on tax avoidance and evasion through offshore financial centres is now under way, focusing in recent weeks most directly on Liechtenstein and Switzerland. The *Financial Times* editorial on 17<sup>th</sup> August, headlined 'Closing the Havens', commented that 'havens may feel aggrieved at being bullied by the diplomatic gunboats of grander powers. But they have only made concessions when forced to do so.'

The negative impact of the current recession on tax revenues necessarily makes governments more acutely concerned about tax erosion through use of offshore schemes. The Channel Islands provide many incentives for companies which conduct their business onshore to establish official domicile offshore – and offer similar incentives to wealthy individuals. It is entirely proper for British politicians to question whether these incentives are acceptable. The United Kingdom has also lost significant revenue through companies exploiting the small-package VAT exemption to mail packages through the Channel Islands; the Jersey and Guernsey authorities have now accepted that this must stop.

The UK Government provides many services for its three Crown Dependencies, in terms of international representation, protection of citizens abroad, and contributions to global order. It would be far more costly for the Dependencies to have to protect their own interests in the many multilateral negotiations that affect them. The Isle of Man makes a modest annual payment to the UK, under a 1994 agreement, in recognition of the benefits it receives. Jersey offers much less, and Guernsey even less than that. Guernsey, indeed, has been claiming for many years that its spending on the

Alderney breakwater is its 'contribution to UK defence', even though the British Ministry of Defence ceased to have any interest in the breakwater – built in the 1850s as a naval anchorage in the face of a French threat – in 1950. It is entirely reasonable for British politicians to ask why Channel Islanders should not contribute a fairer share.

The original relationship between the Channel Islands and the English Crown, in the 13<sup>th</sup> century, was about the construction and maintenance of castles and defence against France. When a British royal commission last looked at the relationship, between 1969 and 1973, the Channel Islands had a stable population living primarily from tourism and horticulture. Now the Channel Islands have attracted many very wealthy new residents from the British mainland and elsewhere, while financial services for global markets have become their most important source of income. This social and economic transformation necessarily has political consequences for the governance of the islands and their relations with the UK and other states.

Jersey and Guernsey are dependencies of the British Crown. The British Government represents the Crown. The British Parliament, within a constitutional system which is based on parliamentary sovereignty, holds the government – and through it the Crown – to account. Both Houses of Parliament have neglected this duty, so far as the Crown Dependencies are concerned, for many years. The Justice Committee of the House of Commons is now remedying this neglect by launching an enquiry into how well the British Government manages the relationship with the Crown Dependencies. I encourage all those in the Channel Islands concerned about that relationship to contribute to the enquiry.