The Jersey Economy and the European Economic Community

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This paper reproduces a thesis written in May 1971 on the implications for Jersey should Britain's negotiations to join the European Economic Community be successful. This was a major issue for Jersey at the time and the thesis is a contemporary analysis of the situation, and perhaps also relevant in the context of the forthcoming referendum on whether Britain would remain a member of the European Union.

The thesis is reproduced as originally drafted subject only to correcting typing and grammatical errors, tidying up the language in a few places and the insertion of a proper hierarchy of headings.

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Introduction

Jersey is an island measuring nine miles by five, fifteen miles off the Cherbourg Peninsula of France. Jersey and the other Channel Islands are geographically part of France although they are generally regarded as being in the British Isles. The relationship between Jersey and the United Kingdom is difficult to describe; it has evolved rather than being laid down by Treaty or Act of Parliament. Natives of Jersey are British subjects, but unlike most other British subjects, they are not citizens of the United Kingdom and Colonies, but rather citizens of the United Kingdom, Islands and Colonies. Jersey has complete autonomy over internal affairs and in particular taxation, but Westminster has responsibility for external matters. As a strict matter of law, Westminster can legislate on any matter for Jersey, but by convention the island parliament, the "States of Jersey" has to approve such measures.

Unlike many other offshore islands Jersey is remarkably prosperous and has no less than 70,000 normal residents in its 45 square miles. The first part of this paper seeks to analyse why Jersey is prosperous and the extent to which the island is an independent economy, rather than an integral part of the United Kingdom. The second part of this paper examines the implications for Jersey should the UK enter the EEC. The mere thought of the EEC has had a traumatic effect in Jersey in the past five years. When the UK applied for entry in 1961, the subject aroused no interest whatsoever in Jersey. In 1967 the island was better prepared and prepared a lengthy report (21) on "all aspects relating to the U.K.'s application to join the EEC". The report included an analysis by Dr Hugh Thurston of the Jersey economy and surprisingly this was the first ever such study. Dr Thurston also looked at the effect that British entry into the EEC would have on Jersey and he pointed out the problems that the island would face. This paper, like Dr Thurston's study, suffers from a lack of facts and figures. Dr Thurston, for example, made the first ever calculation of national income in Jersey and it was 1969 before a breakdown of the labour force into occupational groups was attempted other than the normal census breakdown every ten years.

The structure of the Jersey economy and the interrelationship between the Jersey and the United Kingdom economies

By all accounts Jersey is a very wealthy island. Unemployment drops into single figures quite frequently and only approaches 1% of the employed population in early summer as seasonal labour arrives looking for work. The Thurston Report (21) estimated national income in 1966 at £45 million, which gives a per capita income of £680 compared with only £521 for the UK. In fact, of the major European countries only Sweden and Switzerland could boast a higher figure. Although wealth is more highly concentrated than in the UK, the fact that there is one private car to every two inhabitants indicates the poverty is nearly non-existent. Jersey's real growth rate is about 7% p.a., one of the high figures in the world. Visible imports in 1966 were £30 million (i.e. equivalent to 66% of national income) and visible exports were £12 million. Imports largely comprise foodstuffs, building materials, consumer durables and in general the goods that any community of 70,000 would import. 75% of exports are agricultural produce, mainly potatoes, tomatoes, cut flowers and broccoli. Other important exports are electronic equipment and knitwear. The visible trade balance is more than covered through invisible earnings from tourism and investment income, but, for Jersey, the balance of payments is a meaningless concept as far as economic policy is concerned.

Tourism

Jersey's dominant industry is tourism. The island's attraction is peculiar in a way. It caters for those who want something different from a British holiday but who do not wish to visit the continent for one reason or another. Despite the fact that it is much cheaper to have a package holiday in Spain or Majorca many people still come to Jersey. The island remains largely unspoilt with clean sandy beaches and cliff scenery that has not been ruined by unplanned development. The weather is marginally better than in the south coast of England but not nearly as good as in the Mediterranean. The cheapness of some commodities is another great attraction. With local beer at 7p a pint and best English bitter at 11p, whisky at £1.25 a bottle and 10p a tot (which is 20% larger than in Britain) and cigarettes at 12p for twenty, money goes much further than in Britain. The fact that one can also take back to the UK a considerable duty free allowance can also save the tourist over £10.

It is difficult to determine the exact number of tourists who visit Jersey. Figures have to be derived from arrival and departure statistics and this is always difficult. Using various means the Thurston Report suggested that 5,600,000 tourist days were spent in Jersey in 1966. In relation to the resident population this is a huge figure. It means that for every man, woman and child resident in Jersey, there were 85 tourist days. Not surprisingly tourism plays the dominant role in the creation of national income. Dr Thurston estimated that tourists spent £22-25m in 1966 and this means that the industry accounted for 55-60% of national income.

The whole island is geared to tourism and Jersey in summer is a very different place from Jersey in winter. Throughout the winter months the locals are forced to leave their pubs at 10pm the when the tourists arrive an extra hour's drinking is allowed. The bus service in winter is meagre, but in summer the service to many parts of the island is more than quadrupled. The extent of the tourist trade is indicated by the fact that Jersey's labour force expands by more than 30% of the summer months. Most of this

extra labour is accounted for by seasonal workers from the UK, France, Portugal, Italy and Spain; many local women also find working shops, hotels, cafés etc.

Jersey is evidently dependent on tourism and not surprisingly regression analysis shows a very high degree of correlation between income tax collected, imports and particularly of food, tobacco and alcohol, and the number of tourist days spent on the island. By being so dependent on tourism, Jersey is open to the dangers that any mono-economy faces. For example, pollution of the beaches by oil could be disastrous and Jersey is likely to suffer to some extent as a result of the post office strike. At present, there is no reason to expect a significant decline in tourism in Jersey but as will be seen later the EEC could have very important implications for the industry. While tourism is unlikely to decline in the near future there is also little scope for significant expansion such as occurred in the 1960s (between 1958 and 1966 the number of tourist days is estimated to have increased by 40%). There is not much room for any new hotels and the island is also suffering from congestion as is evidenced by the daily traffic jams that occur during the summer months. Many of the beaches are crowded although this reflects the innate desire of the British to sit on a crowded beach rather than a lack of beaches.

Agriculture

Although tourism is the key to the island's prosperity, Jersey is still famous for agriculture, mainly because of the pedigree Jersey cow. The breed owes its purity to the island nature of Jersey and no other breed of cow has ever been on the island. Jersey cows are exported to all parts of the world and more recently semen has also become an important export. However, the industry is not nearly so important as tourism and in December 1968 only 13% of the island's labour force was employed in agriculture, a figure comparable with that in most of the EEC countries, but much larger than the 3% or so in the United Kingdom. The Thurston Report suggested that the industry accounted for 15% of national income in 1966 and, if anything, this is probably an over-estimate. Although holdings are small and the industry suffers from the lack of capital investment, agriculture is not of a subsistence nature and no less than 90% of Jersey's produce is exported, almost all of it to the UK. Most of Jersey's own food requirements are imported and Eagleton and Stamp (3) have calculated the Jersey's trade in foodstuffs is roughly balanced.

Jersey's natural conditions are the main reason why agriculture has flourished. The island slopes downwards from north to south and the climate is significantly more favourable than in any part of the UK. Jersey's agricultural exports enter the UK free of duty and it is important to note that the tariff protection that Jersey enjoys as against continental European countries is crucial in ensuring the continued prosperity of the industry. Jersey farmers are able to sell their produce on the British market because it is available before produce from other parts of the UK. The competition that Jersey agriculture faces is from Dutch, Spanish and French, rather than from British, farmers, and the fact that Jersey produce already faces severe competition from these sources indicates how vulnerable the industry would be if these tariff barriers were removed.

Agriculture is not a fast growing industry but it remains an integral part of Jersey life and the island would lose some of its tourist appeal if agricultural land were used for development. The agricultural community has at its disposal a large amount of political power in Jersey but it has failed to use it and it is always difficult to see what the farmers want. For example, the industry has remained silent on the subject of the EEC despite

the fact that whatever decision is eventually taken on Jersey entry, it will have profound effects on the farming community.

Finance and banking

The third pillar of the Jersey economy is finance and banking. This is the growth industry of Jersey and of great interest to the economist as a special case of economic integration. Jersey is a tax haven. In fact for number of reasons Jersey (along with the other Channel Islands) is probably the best tax haven in the world for those wishing to escape UK taxation.

A prime requirement of any tax haven is political stability and no state in the world can claim to be more politically stable than Jersey. It is the political framework of Jersey that has allowed the island to take advantage of its position as a tax haven and tourist centre. Whereas most states try to keep separate powers of the executive, the legislative and the judiciary so as to avoid tyranny, in Jersey these powers are fused together. Jersey has no prime minister or cabinet and each committee of the States (the Jersey parliament) is responsible for policy in its own field, subject to the approval of the whole States. The nominal head of the government is the Bailiff (a constitutional oddity is that Jersey is called a Bailiwick even though the Queen's representative, the Lieutenant Governor, is the head of state). The Bailiff must be a lawyer and on his way to becoming Bailiff normally occupies the positions of attorney-general, solicitor-general and deputy Bailiff. He is the speaker of the States, although he can speak in his own right and take part in the government of the island. He is also Jersey's equivalent of a High Court judge and sits on the Channel Islands Court of Appeal.

The States of Jersey comprises 52 members, all of whom are entitled to no salary unless their income is under £750 a year. 12 States members are Senators who are elected on an island wide franchise, and 28 are deputies sitting for single-seat or multi-seat constituencies. The remaining 12 are the individual parish constables who are elected by their parishes, although a sitting constable is seldom opposed. The constables are the head of the police force and the judiciary in their parishes although their powers are very limited in this respect. All the members of the States are entitled to be (and at present all but two are) on at least one government committee and only members of the States can be in the government. That is the same people frame laws, approve them, implement them and punish people who refuse to abide by them. This might appear to be the recipe for extreme tyranny but in practice, this is not the case. The members of the States are honest, not open to corruption and have the interests of the island in mind. The Communist Party is the only political party in Jersey and between 1966 and 1969 it had a representative in the States, although it is true to say that he was elected in spite of this communism and not because of it. He was fully accepted by the other States members and played a valuable role in two government committees. There is, however, not the remotest danger of Jersey joining the Communist bloc; most Jersey people would stand on the right of the Conservative Party. The Jersey government works well and is reasonably efficient. Political crises are unknown and the people are content to express their political views through the ballot box. This analysis of the Jersey political system has been lengthy because it is important. Jersey would never have attained its present level of prosperity and attracted such a large financial industry without political stability, and the financial world knows that the stability will never disappear.

A second requirement of a tax haven is an economy that is not entirely dependent on tax avoidance. In fact it is only since the war, and in particular in the past decade, that Jersey has become a significant tax haven. Agriculture and tourism have provided the economy with a reasonable reasonably sound basis, although at present there is no denying that Jersey's rapid growth can be attributed to finance and banking and a contraction of the industry would have very serious consequences.

The principal requirement of a tax haven is, of course, that taxes should be low or non-existent on certain categories of income or capital, and Jersey meets this requirement easily. Income tax is levied at a flat rate of 20p in the pound for both individuals and companies and there is no distinction between and earned income. Companies which are registered in Jersey but which do not trade locally, pay a corporation tax of £200 a year only. Income tax is not, in fact, regressive because there are generous tax allowances and the first £250 of income is taxed at a reduced rate of 10p in the pound. A married man with two children does not start paying tax until he earns £1,300 a year and no one in Jersey is paying more tax than he would in Britain. Surtax does not exist and there are no death duties, inheritance taxes, gifts taxes or capital gains tax. Rates in Jersey are also very much lower than the UK. The purchase tax and SET do not exist and that excise duties are low is important only for tourism and of course for the locals and does little to make Jersey a tax haven.

It is important that taxes should not only be low or non-existent but also that taxes should not be raised, or new taxes implemented, that will affect the tax haven status. Foreign investors also need an assurance that their assets should not be frozen or expropriated for political reasons. The latter is guaranteed by Jersey's political stability, and the former because an increase in tax or the levying of new taxes will raise less revenue than is at present raised for reasons that will be explained in more detail later. At present the potential investor can be confident that he will not be adversely affected badly by new tax measures because he knows that this will mean killing the goose that lays the golden eggs. Jersey's chancellor, Senator Cyril Le Marquand, has frequently been quoted as saying that income tax will be raised over his dead body. The links between the Jersey government and the finance industry are very strong and many States members, and in particular those on the Finance and Economics Committee, are found on the boards of merchant banks, investment trusts etc.

Jersey's final great merit as a tax haven is its physical and legal proximity for the British resident. One can fly from London to Jersey in half an hour, the island is on the STD telephone network, mail posted in Jersey is delivered in the UK the next morning for a rate cheaper than the British first-class rate, British newspapers circulate freely in Jersey and the island is on the BBC and ITV networks.

More important for the potential investor is the ease with which they can transfer their assets to and from Jersey. The island is in monetary union with the UK and consequently this presents no problems. There are, of course, no exchange controls and there is no legal prohibition on carrying suitcases of money between Jersey and Britain. However, there is no need to do this because, as far as the clearing banks are concerned, Jersey is part of the UK and their branches in Jersey are run in the same way as any other branch, even to the extent that British credit restrictions apply in Jersey. The potential tax avoider not only has a full clearing bank service, but also many merchant banks to advise him and a competent network of lawyers to help overcome any legal problems.

Given the above factors, it is hardly surprising that funds flow into Jersey and both individuals and institutions can benefit by establishing in the island. For example, if a unit trust or investment trust operates in Britain then every time it sells part of its portfolio it has to pay tax on any capital gain. If the trust is established in Jersey, no capital gains tax has to be paid and this not only leaves more assets in the trust, it also enables it to be faster growing as it can be more flexibly handled. Individuals can benefit by being in Jersey mainly because of the low levels of direct taxation. A person holding British gilt-edged stock for example need only pay Jersey income tax on his interest as there is no withholding tax in the UK. For equity stocks on which there is a withholding tax, a double taxation agreement allows a 30% tax rate to be paid. Jersey is also a useful haven for British residents receiving income from abroad. If the money is held in Jersey for one year, it can then be remitted to the UK as tax-free capital. For individuals wishing to avoid death duties, nothing could be easier than moving to Jersey, assuming they are prepared to pay a grossly inflated price for a house. If they do not wish to leave their assets in Britain they can put their money on deposit in a local merchant bank or in a unit or investment trust based on the island.

It may well be asked why the UK is prepared to acquiesce in such avoidance of its taxes. The simple answer is that most of the money that comes to Jersey would leave the UK regardless of whether or not the island existed. It is far better to have the money come to Jersey where it is still used to finance investment in Britain where it puts no strain on the balance of payments whatsoever. There is no "Jersey gap" as there has been a "Kuwait gap" or "Hong Kong gap". In fact, Jersey is regarded as part of the UK for exchange control purposes rather than part of the "rest of the Sterling area". Jersey will not allow itself to be used for the illegal avoidance of UK taxes and there is a steady flow of information between the island tax authorities and the British Inland Revenue.

Although it can be seen the Jersey is a very good tax haven, the sheer size of the industry is still staggering. Figures on millionaires are always hard to come by but it seems that there are between 35 and 40 in Jersey out of less than 200 in the whole of the British Isles. If all the millionaires earned exactly £100,000 in an average year then the income tax revenue collected from them would be £800,000, about 10% of total income tax collected. If one adds to this the income tax yield from the many wealthy immigrants who are not millionaires and the fact that the average income of the millionaires is probably in excess of £100,000, then the extent of the revenue from individuals escaping British taxes is apparent. However immigrants have brought problems to Jersey, mainly in the form of pressure on housing which has dragged up the prices of even the cheapest houses to about double the British level. More will be said on this subject under the heading of the impact of the EEC on Jersey through the free movement of labour, but at present it is sufficient to note that the island is trying to keep out the middling rich who are earning under about £30,000 a year who are really not of much benefit.

More important than the wealthy immigrants is the amount of investment income in Jersey. The growth in the number of financial institutions is itself indicative of this. By mid-1970, in addition to the clearing banks, there were 25 other financial institutions ranging from a subsidiary of the First National City Bank of New York to the Standard Bank and of course to the traditional merchant banks such as Hambros and Hill Samuel. The banking and finance sector employed over 1,200 people at the end of 1968 but by now the figure is probably in excess of 2,000. Finance and banking has also been

responsible for the boom in Jersey's building industry (which employs about 14% of the island's labour force) and most new development in Jersey's capital, St Helier, has been by financial institutions. Law and accountancy also provide much employment and over 600 people were employed in these sectors at the end of 1968, and again, this figure has probably increased significantly by now. At present there is between £400 million and £500 million on deposit in Jersey, and during the course of 1970 deposits with local merchant banks rose by more than 50%, despite the collapse of one merchant bank and a long established investment trust.

Not surprisingly, the share of government revenue from the finance sector is growing rapidly and to a large extent this is money for nothing. The situation is indicated by a breakdown by the States Economic Adviser (16) of the £1,300,000 increase in the yield of income tax in 1970 (an increase of over 20% on 1969). This increases is related to a 21% increase in trading profits relating to 1968, a 24% increase in investment income relating to 1969 but affected by the previous arrival of wealthy immigrants, and a 12% increase in earned income relating to 1969. Of the total Jersey tax revenue in 1970, 30% was derived from investment income and about 45% from trading income. The impôt (indirect tax on spirits, wine, tobacco, and motor fuel) has increased by only 1% in real terms since 1968.

The inter-relationship of the Jersey and the UK economies

Finance is clearly the growth industry of the Jersey economy but there has been little attempt to examine the reasons for its growth. The islanders are inclined to believe that their prosperity results from two factors:
1) Jersey taxes are low or non-existent.
2) Jersey is an independent economic unit
The first factor is important as has already been noted but it is not sufficient that Jersey's taxes should merely be low and non-existent; they must be low or non-existent in relation to taxes in the UK. Jersey's revenue that it receives as a result of being a tax haven is entirely beyond the control of the island authorities. If certain changes are made in British taxation the islands could suffer very severely. There is of course no prospect of surtax being abolished or of all forms of wealth tax (which at the moment means death duties) being ended, but there are a number of measures which might be taken in the UK because the government feels that they are justified, which, while having only a small effect in Britain, could be very serious for Jersey. For example, for a number of years, the unit trusts and investment trusts have been pressing the Chancellor to abolish the capital gains tax which they have to pay when they sell part of their portfolio, and there is a distinct possibility that their efforts may be successful. The present system is unfair in that both the trusts and the investor have to pay tax and thus the Chancellor has two bites at the cherry. The situation is analogous to the sale of securities on the death of someone. Prior to this year's budget capital gains tax had to be paid on such sales and then estate duty had to be paid. The Chancellor decided that this was inequitable and abolished the requirement that capital gains tax should be paid. He may well do the same for unit trusts and investment trusts in which case the funds based in Jersey may lose part of their raison d'être. Similarly the British government may choose to replace estate duty by a legacy duty to be paid by the recipient. As the legatees of most wealthy Jersey residents are in the UK this would deter rich immigrants from entering the island and may well encourage some to leave. Even a mere lengthening of the period of continuous residence abroad before someone could relieve themselves of all British tax liabilities would adversely affect Jersey. In fact, the continued viability of

Jersey as a tax haven is completely outside the control of the island authorities and is dependent on actions decided on at Westminster. The annual British budget is more important for the economy of the island than is the Jersey budget.

Thus Jersey cannot be considered to be an independent economy and this is reflected in the fact that the island's annual budget is not at all concerned with economic policy. The president of the Finance and Economics Committee (Jersey's chancellor) took only 20 minutes to present his 1970 budget and most of this time was spent in congratulating the wine and spirit trade on their good sense to stock up in case of tax increases, congratulating himself on keeping a budget secrets because he had no intention of raising any taxes, and finally trying to explain why the yield from Income and Corporation tax was 25% higher than had been forecast a year earlier. Nowhere in the speech does one find a mention of demand pressure, inflation, money supply or the balance of payments, which dominate any normal budget speech. In fact, Jersey's budget is more like the annual report of a non-profit making company. It explains where the money is coming from and where it is going. If too much money is coming in then prices (i.e. taxes) are cut or new projects are planned. If there is a shortfall of revenue then prices (taxes) are raised or expenditure is cut.

Jersey is incapable of influencing its economy through economic measures. Any increase or decrease in direct taxes is likely to have more effect on population and tax revenue than on demand pressure. The Report on Jersey and the EEC stated: "It is clear that there are severe limits placed on the ability of the administration to influence prices and incomes in the island by its own efforts. This arises because of monetary and partial economic union with the UK and the nature of the flow of income, capital, trade and commerce between the UK and Jersey". Dr Thurston observed that Jersey is dependent on invisible income and thus the administration can have little or no influence over the economy. He went on: "the insular authorities in Jersey not only have no real control over the supply of money or any knowledge of its volume, but unlike a true national economy they also have little control over the structure of interest rates". Jersey has no central bank and the regulations controlling financial institutions are imposed to ensure that they are properly run and not to influence the behaviour of the economy. Obviously if Jersey and the UK are in monetary union then any attempt to influence money supply or interest rates by the Jersey authorities would simply be dissipated throughout the United Kingdom.

It is evident that Jersey is no more a separate economy in relation to the UK than is Plymouth or Guildford. However, unlike other parts of the United Kingdom, Jersey is both directly and indirectly subsidised by the rest of the community. This can be illustrated by examining why Jersey can afford to survive with low or non-existent taxes. There are two principal reasons:

1) It has been shown that much Jersey tax revenue comes from people avoiding British taxes. If Plymouth or Guildford could lower their taxes then they too would be able to attract investment income and wealthy immigrants. In economic terms price elasticity of taxes in Jersey, Ilford or Plymouth or any other part of the UK is greater than unity assuming that the other parts of the UK cannot change their taxes. Jersey's Economic Adviser (17) has stated that 20-25% of the island's income tax revenue comes from people avoiding British taxes. This is equivalent to about £2 million in the current financial year or about £30 per head of population. Added to this must be the considerable revenue from people leaving Jersey and taking back to the UK their duty-

free allowance. Jersey taxes have to be paid on this allowance and the source of revenue is probably worth about £400,000 a year.

2) Jersey has many benefits that she does not pay for. Jersey's Economic Advisor (17) has calculated that 50% of the difference between Jersey and British tax rates can be explained by the cost of financing the national debt and defence. One could argue for hours about whether Jersey has benefited from British defence expenditure; as any Jerseyman will point out, as soon as the Germans came near Jersey in 1940, the island was declared a de-militarised zone and consequently suffered five years of German occupation. However, in the circumstances this was the right decision and at present Jersey does receive considerable benefit from British defence expenditure. The army has carried out useful civil engineering work in Jersey, many military bands visit the island each summer and this is a benefit to the tourist industry, and in the past few years a navy team of bomb disposal experts has been engaged on a long and expensive operation to remove a large number of bombs from a sunken ship just off the Jersey Coast. The island has paid for none of these services. No doubt, if riots ever did break out in Jersey then British troops would be freely available to quell them. The Jerseyman would rightly reply that they will never be riots in the island, but then the inhabitants of Plymouth could quite easily use the same argument. The national debt has been contracted for a variety of uses and some have benefitted Jersey but it would be a brave man who attempted to quantify the effect.

Jersey also benefits directly from some government expenditure. For example, the Jersey authorities only pay normal fees for its students at British universities and polytechnics although these are only about 10% of the total cost of the education that is received. The subsidisation of Jersey students in this way has been estimated at £250,000. Similarly, many Jersey residents receive free treatment in British hospitals. Other examples are the subsidisation of British Rail, which operates two mailboats to the Channel Islands, subsidisation of the BBC, the use by Jersey residents of British embassies and consulates etc.

Jersey's nominal independence has also enabled it to take advantage of some unusual opportunities for raising revenue. When the Post Office became a public corporation, Jersey took over the postal service in the island, previously having benefited from subsidisation by the British taxpayer. The service only covers 70,000 people and the sale of stamps for postage in 1970 only totalled £358,000 while the sale of stamps to collectors was almost as much at £344,000. If every community of 70,000 in Britain had the right to print its own stamps then collectors would not be interested but as only Jersey and Guernsey have, they can benefit accordingly. Another interesting example of this type of revenue raising was seen in Guernsey a few years ago when that island literally sold its own money. The Guernsey authorities decided to issue a square ten shilling bit and 200,000 were minted. Every single one was sold to a collector and none went into circulation, leaving a considerable profit for the island revenues.

It is evident from the above the Jersey is dependent on the UK and its activities have led it to become more prosperous than the UK. However the analysis suggests that Jersey is not exploiting the position as much as it could. Jersey has the power to print its own money and so create bank deposits, but the usual arguments about printing money leading to inflation do not apply because the island is in monetary union with the UK. If Jersey printed £100 for each resident and allowed them to spend it on anything they wanted this would have no more inflationary effect on the island than if every citizen of

Plymouth or Ilford were similarly given £100. By taxing companies that do not trade in Jersey, by taxing residents in Jersey who do not earn their money in the island and by selling stamps that are not used, Jersey is, in effect, printing its own money already.

The Jersey people would no doubt like to believe that it is they who are responsible for the prosperity of the island. In fact, Jersey has found itself in possession of a goose that lays golden eggs and has had the good sense to feed it. If Jersey was either an integral part of the United Kingdom, i.e. subject of all British taxes, or alternatively completely independent, it would be a poor island community in much the same way that the Scottish islands are poorer than the surrounding mainland. The Thurston Report cited the example of the French island of Belle-Isle. This island is comparable in many respects to Jersey, being 33 square miles in area and a short distance off the Brittany coast. The island is an integral part of France and enjoys no special privileges in terms of tax, it has no political autonomy, no rich residents and no banks. Belle-Isle is consequently poor and has suffered from de-population; between 1911 and 1962 total population declined by 50%. As Dr Thurston observed: “The contribution which autonomy has made to the prosperity of the Jersey economy, combined with the industry of the inhabitants has produced a prosperous community. In no small measure this is being achieved within this framework by the mobility of resources and the creation of capital in the island, brought about by the existence of autonomy in in the island.”

Jersey and British entry into the EEC

The first part of this paper has shown that the Jersey economy is totally dependent on the UK. It follows that British entry into the EEC will have serious consequences for Jersey whatever the island does. The issue of Jersey and the EEC has raised important political considerations, largely because the legal ties between Jersey and the UK are so vague. It was noted in the introduction that while Jersey is responsible for its own internal affairs, the UK is responsible for international matters. The EEC presents a problem because for Britain it is a foreign policy matter but it also has a direct bearing on issues such as taxation that are regarded as domestic in Jersey.

It is generally accepted that the if the UK signs the Treaty of Rome (8) as it stands, then the Treaty would apply to Jersey under Article 227-4 which states: “The provisions of this Treaty shall apply to the European territories for whose external relations a member state is responsible.” It has also been accepted that as a matter of strict law the Westminster Parliament can force jersey into the EEC without the consent of the States. However, to do so would be against constitutional convention and it would also be undemocratic in that the people of Jersey would not have been consulted.

However, there is no evidence that the UK wants to force jersey to do anything against its will, and it is clear that the Channel Islands will be given a choice as to whether or not they go into the EEC. As long ago as 1966, Roy Jenkins, the then Home Secretary, said while on a visit to Jersey: “In the event of Britain making a decision to go in (the EEC) and succeeding in getting in, it will be a matter for the Channel Islands to decide what was in their best interests”. There is no reason for thinking that the situation has changed. What will probably happen is that when negotiations between Britain and the EEC are completed, Britain will point out the problems of Jersey and the other Channel Islands and try to obtain some special arrangements. Jersey will then be presented with an alternative of going in, with, it is hoped, some special arrangements or staying out, again with special terms. It is the extent of these special arrangements that will decide whether or not Jersey goes in and the issue is very open at present.

This part of the paper looks at the implications for Jersey should Britain enter the EEC. The first four sections assume that Jersey will also go in and examine the effects on the island’s economy through indirect taxation, direct taxation, immigration and social security and agriculture. The next section looks at what will happen if Jersey stays out. That this section is short simply reflects the fact that the implications of staying out are fairly straightforward whereas the implications of going in are not. There is little that the EEC has done so far (except in the field of labour mobility) that would seriously affect Jersey; it is what the EEC intends to do that worries the island. However, it is necessary to examine not only what the EEC intends to do but also whether or not it is likely to do it. It should be noted in this respect that throughout this part of the paper it is assumed that what the EEC had already agreed on is not going to be reversed in the future. The fifth section looks at the possibility of special arrangements and finally some conclusions are drawn.

The implications for Jersey of harmonisation of indirect taxation in the EEC

Before examining what harmonisation means to Jersey, it is essential to examine why EEC wants to harmonise indirect taxes and the prospects for achieving the stated

objective. The Thurston Report is particularly inadequate when dealing with indirect tax harmonisation because it appears to be based on two unrealistic assumptions:
1) That the harmonisation of indirect taxation is an objective in itself rather than a means to an end.
2) That the EEC will achieve anything in the field of indirect tax harmonisation that it wants to.

In fact, the objectives of indirect tax harmonisation are to facilitate the operation of the common market, and this is indicated in Article 99 of the Rome Treaty: “The Commission shall consider how to further the interests of the common market by harmonising the legislation of the various member states concerning turnover taxes, excise duties, and other forms of indirect taxation including compensatory measures in respect of trade between member states.” The Treaty also provides that the destination principle should be applied to indirect taxation. It is not surprising that the EEC should have chosen to single out turnover taxes and excise duties for harmonisation. Like tariffs, both can have a distortionary effect on trade and the conditions of competition cannot be equalised until such distortions are removed.

The value added tax (VAT) has been adopted by the EEC because it was felt that it offered the best means of eliminating the fiscal distortions to competition. Previously, the Six, with the exception of France, operating a cascade tax system and although Articles 95 and 96 of the Rome Treaty sought to prevent border tax adjustments from distorting competition, it is difficult to determine what the appropriate adjustment should be and there is a danger of import taxation or export subsidisation. The cascade system also distorts competition internally by favouring vertically integrated concerns and this constitutes an important obstacle to specialisation, which is one of the prime means by which the EEC is supposed to have a beneficial effect.

It was the 1962 Neumark Report that recommended that the Six should introduce a value added tax to be applied on the origin principle for intra-EEC trade and the destination principle for trade with third countries. In February 1967, the Council adopted two directives on the harmonisation of indirect taxes. The first directive established the principle of applying throughout the Community a general tax on goods and services, exactly proportional to the price of the goods and services regardless of the number of stages of production. This tax is supposed to be applied up to the retail stage, but during the transitional period until fiscal frontiers are abolished VAT can be stopped at the wholesale stage with an independent retail tax also being applied. The deadline for the introduction of VAT was set at 1st January 1970. The Commission also announced that it would submit proposals indicating in what way and over what period of time the alignment of taxes on turnover could result in the abolition of import and export taxation in the EEC. Thus it became obvious that the EEC intended to harmonise the rates of indirect taxation as well as the structure. This is not necessary to avoid the distortion of competition and the Commission has accepted this. Von der Groeben has said (11): “Harmonisation does not mean that the tax systems must be made uniform, but only that they must be mutually adapted to the extent that is necessary to make them neutral from the point of competition and thus to bring the tax system into line with the competitive system of the economy”. At present, although the ultimate aim is the removal of fiscal frontiers to ensure the free movement of goods (which is not the same as equalising the conditions of competition), the aim of the first directive is to help remove fiscal distortions to competition and no further decisions have yet been taken.

The second directive fixed the structure and details of the VAT. It was laid down that the tax should be collected as a percentage of the value added by each firm, to be paid on the invoice principle, on services and goods supplied in each country and on imports. The tax is not levied on financial institutions and is optional for small firms, agriculture, the liberal professions, hairdressing and services supplied by individuals. Rates are still firmly within the province of national governments.

It is important to examine the progress of the EEC is made towards the implementation of VAT and the progress that is likely to be made towards harmonising rates and the abolition of the fiscal frontiers because these factors are of vital importance to Jersey. In fact, the 1970 deadline for the introduction of VAT has not been met. In 1969 Italy and Belgium were granted a two-year and a one-year extension respectively in which to introduce the tax.

Despite the difficulties of introducing VAT, the EEC is making very optimistic noises about the possibilities of harmonising rates. The 1970 Werner Report (7) said: “To make possible the abolition of fiscal frontiers while safeguarding the elasticity necessary for fiscal policy to be able to exercise its functions of the various levels, a sufficient level of fiscal harmonisation will be effected, notably as regards the value added tax, taxes likely to have an influence on the movement of capital and certain excise duties.” This is somewhat vague but it seems that a sufficient degree of fiscal harmonisation means that national VAT rates should be within a spread of 2-3%. In a Commission Memorandum to the Council (4) it was proposed that the first stage of the progress towards economic and monetary union (1970/1) should include the introduction of VAT throughout the Community and the adoption of a programme for harmonising rates. In the second stage (1972/5) it was proposed that VAT rates be progressively harmonised and by 1978 it was hoped that fiscal frontiers could be abolished.

This timetable is totally unrealistic and there is no chance of it being achieved. There is certainly no prospect of a timetable for the harmonising of rates being agreed on during the current year. When the Council eventually agreed to move towards economic and monetary union in February this year, no firm decision was taken on harmonising rates and it now seems unlikely that there will be much serious discussion on the subject before the end of 1974, and even this discussion is expected to be on the basis of assessment rather than on rates. Thus in the next few years there is to be no attempt to harmonise rates, only to harmonise those items that are taxed. However, there is talk of imposing a ceiling and floor for VAT rates to stop the spread which is detailed below getting wider.

It is difficult to see fast progress being made towards harmonisation of rates although turnover tax rates must be harmonised if the EEC is to become one market. Partly the problem is political; alignment of VAT rates will mean that member countries will have to surrender virtually all their sovereignty over turnover taxation and this loss of sovereignty will be much greater than any other measure that the EEC has introduced so far. However, as important as the political factors are the budgetary implications. Taxes on expenditure still form widely differing percentages of GNP in the Six, e.g. in 1968 the range was from 11.2% in the Netherlands to 15.9% in France. The present range of VAT rates is so extensive that alignment will necessitate large offsetting changes in other taxes. The lowest rates of VAT are in Luxembourg where the tax is levied at 10%, 5% and 2%. The tax is highest in France when there are four separate rates of 7.5%, 17.6%, 23% and 33.33%, although it is eventually intended to merge the 17.6% and 23% rates.

The Dutch standard rate is 14% and Germany's two rates are 11% and 5.5%. Belgium's VAT, introduced at the beginning of this year, has four rates, 6%, 14%, 18% and 25%, and after a year it is intended to raise the 14% and 18% rates to 15% and 20% respectively. Italy has yet to decide what rates it will introduce for its VAT.

It has already apparently been agreed that when the tax is eventually harmonised, the standard rate will be 15% and there will be a reduced rate of 7.5% for food and certain other essentials. For all the rates above (plus those of the four applicant countries assuming that they join the EEC) to be harmonised will be a huge task and one can say with complete confidence that the 1980 target will not be achieved. Indeed, there must be an element of doubt as to whether the VAT rates will ever be harmonised.

Before going on to examine the effects of VAT on Jersey it is useful to summarise the arguments above:

1) The purpose of the harmonisation measures so far introduced has been to ensure that turnover taxes do not distort the conditions of competition in trade across frontiers and also to ensure that they do not influence the degree of vertical integration of firms.

2) VAT rates will remain under the control of national authorities for many years to come and there is no danger in the foreseeable future of the origin principle being applied to intra-Community trade.

It is agreed in Jersey that if the island had to introduce a value added tax then the effect would be adverse and if the origin principle had to be applied the effect would be disastrous. The VAT poses problems in Jersey that exist for no large nation. Whereas for Britain and the Six the VAT has, or is going to, replace existing indirect taxes, in Jersey the VAT would be an additional tax because the island has no turnover tax at all. The result would be a rise in prices by about the amount of the tax, the exact effect depending on the extent to which producers and distributors absorb the tax. With a VAT of 15% this could be a very steep price rise. The Thurston Report claimed that a 15% VAT would result in a rise in prices of between 20% and 30%. This is obviously absurd and how Dr Thurston arrived at the figure is a mystery. Even if the tax did not apply to hotels, the effect of a sharp rise in prices would be very serious for tourism. The Thurston Report estimated that the average expenditure of tourists in Jersey in 1966 was £40-45 a head, which indicates that the island is basically in the market for cheap holidays. As competing areas such as Spain and Majorca would not be subject to this rise in prices the tourist industry in Jersey would become less competitive and probably face a contraction. VAT would also impose a serious administrative burden on the island. The Thurston Report estimated that if the tax could be restricted to agricultural products, goods manufactured in the island and to warehouse and freight services it could be administered by a staff of three or four persons; if, however, the tax had to be applied to the full range of activities as set out in the two directives then this would mean that 7,000 accounts would have to be kept and a large administrative staff would be necessary. While a VAT may be a suitable tax for a large industrial nation with many big companies, the same cannot be said for a small island in which no privately owned firm employs over 500 persons.

However, the big danger of VAT for Jersey comes if the tax rates are harmonised and if the origin principle is applied to intra-community trade. The problem is that Jersey is an import-based economy. In 1966 visible imports were £30 million (equivalent to two thirds of GNP), over 90% coming from the UK or EEC. Virtually all these imports would be liable to VAT. Visible exports on the other hand were worth only £12 million, 75% being

accounted for by agricultural goods, which may not be liable to VAT at all, or, if they are, then it would be at the reduced rate of 7.5%. It needs little imagination to see that the results of this would be very harmful to the island. Not only would about 15% be added to the cost of most imports, which would lower the standard of living of the Jersey people, but it would also result in Jersey residents paying, through increased prices, about £4 million to foreign producers. VAT from the sale of exports would probably be under a third of this figure. Admittedly, VAT would raise some revenue for Jersey, but this is neither needed nor wanted. The income of the Jersey government is only about 17% of national income and about 30% of this is derived from committee revenue rather than from taxation. Thus a 15% VAT with a 7.5% reduced rate would provide roughly the same revenue that at present comes from the impôt, Income tax and corporation tax. Thus if VAT were introduced then these could be abolished or alternatively social security benefits could be increased so as to offset the higher cost of living.

The Thurston Report assumed that these disastrous consequences would occur if Jersey entered the EEC but made no attempt to see if they could be avoided. In fact, the situation may not be nearly as bad as is commonly feared in the island. In the first place it has been shown that the aim of the directives now in force is to remove the distortions to trade and competition caused by turnover taxes. As Jersey has no turnover taxes it is difficult to see of what use a VAT could be in removing distortions that do not exist. The imposition of a VAT will not improve the competitive climate in Jersey, nor will it lessen the distortion of competition in the Community as a whole as long as the destination principle is applied. Thus if Jersey enters the EEC then there is no economic reason why it should introduce VAT until Community rates are harmonised and the origin principle initiated. This could quite easily be done within the terms of the present directives that only lay down that the country's turnover tax shall be a VAT, leaving the details to be filled in by individual governments. Jersey could thus have a VAT with a 0% rate or a VAT with a 15% rate but with all firms employing less than 500 people being exempted etc. Although this reasoning appears to be sound it has been rejected by the island authorities who seem convinced that if Jersey does enter the EEC then a VAT will have to be applied even while there is no prospect of the tax rates being harmonised. One is inclined to believe that the Jersey government is wrong in this respect; Jersey is highly skilled in avoiding taxes and there is no reason why the island should not avoid imposing the VAT. However, if a floor and ceiling on rates is imposed then this would obviously make it more necessary to introduce the tax in Jersey.

If the origin principle is ever introduced, then of course Jersey would have to apply the tax at the harmonised rates, and this would have the very serious implications that have already been discussed for the tourist industry in particular. However, the danger of paying millions in the form of higher prices to the UK and other EEC countries has receded to some extent and Britain has made it clear that it would not allow such an inequitable situation to exist. Britain has already offered a ”common purse arrangement” to the Channel Islands. This would operate in much the same way as it does for the Isle of Man at present. Duties on goods entering the IoM are at the same rate as in the UK and the same excise duties also apply. All the revenue from these sources collected in the Isle of Man is added to the UK Customs and Excise revenue and the island receives a sum from the British authorities proportional to its population relative to that of the UK. Surprisingly, Jersey has rejected this offer pointing out that it has always been self-supporting and independent financially and has no wish to surrender the sovereignty.

The situation has changed in the past few months in that the EEC seems committed to

establish a clearing house for VAT revenue, when the origin principle is applied. All the revenue would be paid into one fund and after the Commission has had its share the remainder will be shared out between the members. It seems that the idea of a clearinghouse is to apply the tax to the country of consumption. Jersey's economic adviser (17) seems convinced that this would mean that Jersey would receive revenue in proportion to the tax paid on the island. However, this is not certain and more details are required before it will be possible to know the extent to which such a scheme would mitigate the otherwise harmful effects that the application of the origin principle would have on Jersey. It is probable that the clearinghouse scheme could be combined with a common purse arrangement with the United Kingdom to produce a fair system in Jersey.

Thus it is probable that the effects of VAT on Jersey will not be nearly so serious as has commonly been feared. However, this does not alter the fact that the tax will not be welcome in the island and if it has to be introduced the effect on tourism in particular will be adverse and will pose a significant threat to Jersey's prosperity. If Jersey does decide to stay out of the EEC then the VAT will be a primary reason. One fears that the island authorities have over-estimated the dangers however. Given present circumstances, one is inclined to think that would be worth sticking one's neck out and assuming that as long as the destination principle is applied, Jersey need not have a VAT and that the chances of the origin principle ever being applied are slim. The harmonisation of turnover taxes is a task many times more difficult to achieve than the dismantling of tariffs and this took ten years.

Much the same arguments that apply to VAT also apply to excise duties. However, the difficulties in harmonising excise duties are even greater than for turnover taxes because of wide variations in taxable goods and great differences in living and consumption habits from country to country. In fact, absolutely no progress has yet been made on harmonising duties and in the first stage of the progress towards economic and monetary union the Council has agreed merely to enact measures on harmonisation of the field of application, the basis of assessment and the terms of levying excise duties, especially those that considerably influence trade. It seems that, eventually, it is intended that a Community excise tax should be levied on a limited number of goods, probably tobacco, spirits, beer and mineral oils and possibly also wines. Significantly, these are the only commodities that are subject to the impôt in Jersey and thus the island could find few objections in harmonising excise duties as long as the rates are left untouched. However, it is the complete harmonisation of rates that would present great problems for Jersey. Cheap alcohol and tobacco are important for the tourist industry and should rates have to fall into line with those in Britain, Jersey's attractions as a tourist centre would be considerably diminished. An equalised tax on mineral oils would pose even greater problems for the island. At present, oil enters Jersey free of duty and impôt is levied in the island of 7p a gallon. Any attempt to increase this duty to the English level of 22.5p (EEC rates are at a similar level) would have disastrous consequences, as Jersey is very heavily dependent on oil for its fuel requirements. In agriculture, for example, fuel costs are 40% of total costs for glasshouses and the figure for catering is 5-10%. Jersey residents, used to having change from a £1 note for five gallons of petrol, would also certainly not welcome having to pay British prices.

The Thurston Report assumed that, in fact, excise duties would be harmonised and the origin principle applied, but as has been noted, no progress has yet been made in this field. The wide variation in excise duties (even wider than for turnover tax rates) will prove to be a significant obstacle. In fact, prices of beer and spirits in the Six are little

higher, and in some cases lower, than in Jersey. Dosser and Han (2) have observed that should the tobacco tax be harmonised then the UK will probably have to lower its rates. It is difficult to envisage any British government agreeing to do this. Harmonisation would have very important budgetary implications; the Thurston Report pointed out that in 1967 excise duties as a percentage of total tax revenue varied from 16% in France to 35% in Italy. It is evident that the EEC is not going to agree to harmonise excise duties in the near future and thus Jersey has little to fear in this respect. Should the origin principle ever be applied then this would be disastrous for Jersey, although one assumes that the clearinghouse arrangement will apply as for VAT. Until the origin principle is applied, Jersey would have to resist very firmly any pressure to bring its excise duties to nearer the British level.

The implication for Jersey of the EEC's plans for direct tax harmonisation

The harmonisation of direct taxes in the EEC naturally poses a threat to Jersey's growth industry, tax avoidance. The need for a common market to harmonise direct taxes is different to the need to harmonise indirect taxes the two reasons:

1) Whereas the neutrality of indirect taxation can be achieved merely by the harmonisation of tax systems, direct tax neutrality can only be achieved by the equalisation of the effective tax burden.

2) The items that are subject to indirect taxes, i.e. goods, are far more mobile than the items that are subject to direct taxes, i.e. people and companies. Very few people consider emigrating merely to take advantage of a lower level of income tax, and while companies are more mobile they certainly do not move about as freely as goods.

The EEC has evidently decided that the second factor outweighs the first, and the harmonisation of direct taxes has been accorded a much lower priority than that of indirect taxes. This is reflected in the Treaty of Rome, which specifically calls for the harmonisation of turnover taxes and excise duties in Article 99. For direct taxation however, authority comes from the more general Article 100 which provides for: "Approximation of those provisions imposed by law, regulation or administrative action in member states as directly affecting the setting up or operation of the common market".

Von der Groeben (11) has said that plans for direct tax harmonisation have four objectives:

1) To ensure that the effects of taxation on the cost of production and on the yield on invested capital do not differ widely between one member country and another, i.e. fiscal measures should not influence the mobility of the factors of production.
2) To ensure that capital movements depend on economic rather than fiscal factors.
3) To eliminate tax obstacles to mergers and the setting up of European companies.
4) To coordinate the fiscal policies of the member states.

It is the first two objectives that are relevant to Jersey. With reference to the first, Jersey's fiscal measures, i.e. low income tax, no surtax, no estate duty, no gifts tax and no capital gains tax, have the effect of attracting wealthy immigrants. However, fortunately for Jersey, it is apparent that these taxes are the last in line for harmonisation. The Six have decided that, in general, personal income taxes do not enter into the price of goods and that labour is immobile. As indirect taxes and company taxes are to be harmonised first, it seems that income tax will be left as a residual, to be used to account for differences in the size of national budgets. At present, the variations in the rates of personal income taxes in the EEC are very great and even if this tax were

to be harmonised before any others, there would be serious budgetary implications. For 1966, the Thurston Report calculated effective income tax for a married man with no children at an income of £1,000 a year varied from 4% in Italy to 15% in Belgium. At £5,000 a year the variation is from 11% in Italy to 39% in the Netherlands. In fact, at the lower levels of income, the effective rates of Jersey income tax are similar to those in France and Italy.

The harmonisation of taxes on companies is more important than the harmonisation of personal income tax in a common market, because, as has already been noted, companies are more mobile than labour. At present, direct taxes on companies are not compensated for in border tax adjustments although they can influence relative prices and are thus a distortion in the pattern of international trade. As for indirect taxes, the Community's first aim is to remove the differences in the tax burden that have a definite distortionary effect and then to move towards a comprehensive company profits tax. As for the harmonisation of other taxes this will prove a very difficult task because of the wide variations within the community. The Thurston Report observed that in 1967, the income tax on the distributed profits of corporations varied from 18% in Italy to 50% in France, and that there were also many differences in the structure of these taxes. The only general movement that can be discerned in Europe, including the UK, is towards the separation of a progressive income tax and corporation tax. The Werner Report (7) said little about the need to harmonise corporation taxes and merely noted that it would be necessary to initiate and actively promote the harmonisation of the structure of taxes on corporations. In the Commission Memorandum to the Council on the second stage of the progress towards economic and monetary union (4) it is noted that corporation taxes should be harmonised as to structure and basis of assessment.

The harmonisation of corporate taxes would present an administrative problem for Jersey, but not a budgetary one. Jersey has no separate corporation tax and companies pay a 20% income tax as do individuals. This rate is similar to the corporation tax rate in Germany. For companies that are registered in Jersey but do not trade on the Island, Dr Thurston has maintained that their status can be easily altered to meet any EEC requirements.

Taxes on capital and dividends pose more of a problem for Jersey. Capital is more mobile than either persons or individuals (as Jersey knows to its advantage) and consequently harmonisation measures are very important for the free working of a common market. Ideally, a common market for capital means free access to all sources of capital, freedom of investment and no distortion of competitive conditions. Among the taxes that need to be harmonised to fulfil these requirements are taxes on the formation or increase of capital, taxes on the transfer of capital and taxes on dividends and interest. The Werner Report (7) singled out the harmonisation of the fiscal regime applied to interest payments on fixed interest securities and dividends. The only concrete measure that has been taken as yet, is a directive on the harmonisation of indirect taxation on the raising of capital, which was approved in July 1969. This provides for the abolition of stamp duty and the charging of a harmonised capital duty. The deadline for these measures is the beginning of 1972. The next definite measure is likely to be the harmonisation of the withholding taxes on dividends and interest passing across national frontiers, as recommended by Werner. The intention of the Commission is to abolish at source withholding taxes but the chances of this being achieved are not great.

The proposed harmonisation measures have serious consequences for Jersey, not because of what they are but because common systems will affect Jersey's position as a tax haven, which, by definition, depends on the island being different. For example, Jersey has no stamp duty and consequently its abolition does not present a problem. However, the abolition of stamp duty in the UK, implemented in the 1971 Budget, is likely to act as a minor deterrent to capital coming into the island. Similarly, Jersey can levy a capital duty without much trouble but this would have the same effect. A common withholding tax for interest and dividends would seriously affect Jersey's position as a tax haven for investment income, especially if the tax applied within as well as between member countries. The rate of the withholding tax would almost certainly be higher than Jersey's income tax rate and provisions for subsequent refunds would not be entirely satisfactory. The complete abolition of withholding taxes would have an even greater deterrent effect on funds coming to Jersey. Interest rates are higher in Jersey than in the UK and it is because of this and the fact that the interest is paid gross whereas it is not in the UK, that so much investment money comes to Jersey. The EEC's plans for the harmonisation of taxes on capital are a factor favouring Jersey staying outside the Community.

If Jersey does enter the EEC then it seems certain that it will lose its status as a tax haven. It is possible, of course, that the Community might welcome a tax haven. It has been noted that if money from the UK did not come to Jersey they it would probably go somewhere else and by allowing the money to stay in Jersey it does not harm the balance of payments and the money is used to finance investment in Britain. Possibly, the EEC might find use for a similar tax haven, in order to stop funds flowing to Liechtenstein, for example. It will certainly not be in Britain's interests to allow the Bahamas, Bermuda or the Cayman Islands to become its tax haven instead of Jersey.

Unfortunately, the evidence does not suggest that the EEC wants a tax haven, although what it is prepared to do to discourage them is another matter. The EEC countries have already put pressure on Monaco and Liechtenstein to reduce their attractiveness as tax havens. The position of Luxembourg, however, is interesting and provides some comfort to Jersey. Luxembourg is generally regarded as being a tax haven and can claim to be an international financial centre, used by British, North American and continental financial organisations. Its status seems to be accepted by the EEC countries. The size of the Luxembourg tax avoidance industry can be judged from the fact that 10% of the population get their living from banking, a higher ratio than in Jersey. Like Jersey, Luxembourg experienced a sharp increase in its finance industry in 1969, with the number of banks and people employed by banks rising by about 25%.

Luxembourg is particularly noted for its holding companies, which now number about 2,000. Provided that these companies do not trade locally they pay no tax at all. Several large companies, e.g. Olivetti, have taken advantage of this – it enables them to transfer resources between their various constituent companies without paying any tax, and they can also pay interest and dividends gross. The loss of such companies would not be a great blow to Luxembourg - they pay no tax and their sole benefit to the economy is to provide employment. Much the same can be said for the holding companies in Jersey, although some revenue is obtained from them. Luxembourg's speciality as a tax haven is in the eurocurrency field, an area that Jersey has yet to enter. It is the lack of the withholding tax that encourages Eurobonds in particular to be floated there, and this is of great benefit to tax dodgers. The remainder of Luxembourg's attractions include no capital gains tax and no death duties.

It can be seen that Luxembourg's position is very similar to that of Jersey, even down to the fact that it has no central bank. That Luxembourg has not imposed any wealth taxes although it is a member of the EEC must be a comfort to the wealthy immigrant industry in Jersey. Like Jersey, Luxembourg also depends on the absence of exchange controls (in this respect Luxembourg's relationship to Belgium is similar to that between Jersey and the UK), and no withholding tax being levied on interest and dividend payments. Luxembourg is a tax haven in the EEC in much the same way that Jersey is a tax haven in Britain, the main difference between the two being that Luxembourg benefits companies whereas Jersey benefits individuals. Whether or not the EEC tries to change the position of Luxembourg remains to be seen. France has attacked Luxembourg's status as a tax haven but the government-owned Banque Nationale de Paris still operates there.

Unlike Luxembourg Jersey can claim to have developed as a tax haven accidentally, rather than deliberately setting itself up as one. Jersey however, is more dependent on being a tax haven than is Luxembourg and the scope of the island's tax avoidance industry is also much wider. It is believed in the island that Jersey's status would be less acceptable to the Community than is Luxembourg's. There is not the great flow of funds into and out of Luxembourg that Jersey experiences and it is this loss of control over capital that the EEC would be likely to object to. For example, before each budget in Britain while the Labour Party was in power, millions of pounds flowed into Jersey in order to escape any new wealth tax. Speculation on currency changes also leads to the banks in Jersey working overtime. It is factors such as these that have led the Jersey authorities to believe that the island would not be able to remain as a tax haven should it enter the EEC. It is interesting to note in this respect that the Commission is looking into the question of tax havens with a view to curtailing their activities.

The effect on Jersey of the EEC's plans for labour mobility and social security

The EEC's plans the labour mobility and social security are another reason which make it difficult for Jersey to enter the Community. The EEC is trying to establish a common market and thus freedom for labour to move freely throughout the Community is essential. The Rome Treaty (8) specifically calls for increased labour mobility. Article 48-1 states that: "Freedom of movement for workers shall be secured within the Community not later than the end of the transitional period". Article 48-2 ensures that: "Such freedom of movement shall entail the abolition of any discrimination based on nationality between workers of the member states, as regards employment, remuneration, and other conditions of work and employment". Finally, Article 52 states: "Restrictions on freedom of establishment of nationals of a member state in the territory of another member state shall be abolished by progressive stages in the course of the transitional period". The more general Article 7 is also relevant: "Within the field of application of this Treaty, and without prejudice to any special provisions contained therein, any discrimination on the grounds of nationality shall be prohibited".

The Six have made considerable progress in this field and the free movement of labour was virtually achieved by August 1968. Community nationals are now free to go to any member country without a work permit in order to look for a job. A firm in any member country is not allowed to discriminate on grounds of nationality in matters of employment, pay or other working conditions. The only bases for discriminating are reasons of "public order, public safety and public health" and these criteria can only be

used against individuals. Community nationals must also receive equal treatment with respect to housing and they have an absolute right to be joined by their families. However, there is provision for a special Community procedure in the event of these regulations threatening either living standards or employment.

It is this last provision that Jersey will have to rely on should she enter the Community, because otherwise the effects of the free movement of labour and equal rights of establishment can only be regarded as disastrous for the island. Jersey’s big economic problem is that the low taxes and pleasant living conditions have led to massive immigration in the past decade. Since 1961 the population has increased from 63,000 to an estimated 72,000. This represents an increase of about 1.5% p.a. compared with only 0.5% p.a. in the UK. It has been estimated that each new immigrant costs the island between £2,000 and £3,000 in new capital expenditure on roads, schools, sewers, hospitals etc. It has proved impossible to control immigration directly for fear of starving the tourist industry of the seasonal labour that it needs. Instead, strict controls have been maintained over housing but even these have run into problems. Under the 1949 Housing (Jersey) Law, non-residents were barred from buying or renting houses unless they could prove that they were essentially employed, or unless they were prepared to buy an expensive house, which in 1969 meant one over £12,500. In that year it became clear that these regulations were not controlling the situation adequately and attempt to remedy the situation led to there being three separate housing committees in as many months. A raising of the exemption limit to £25,000 had the expected inflationary effect on house prices. Under present regulations, price control is exercised on all house purchases, but it is hoped that for transactions between residents, the controls will soon be lifted. Non-residents must prove that they are either socially or economically desirable for the island. Such controls are blatantly discriminatory, but they are also essential; a free market would result in an intolerable inflation of house prices such that young Jersey couples would be forced to emigrate should they wish to buy a home.

Jersey policy is, of course, entirely incompatible with the EEC regulations and unless satisfactory concessions could be obtained from the Community, this factor alone is a powerful argument against entry. The island authorities seem very confident that concessions will be forthcoming. Article 2 of the Protocol to the Rome Treaty Concerning the Grand Duchy in Luxembourg is relevant in this respect. It states: “When making regulations provided for in Article 48-3 of the Treaty in respect of the freedom of movement of workers, the Commission shall take account as regards the Grand Duchy of Luxembourg of the special population considerations of that country”. However, the position for Luxembourg is different to that for Jersey. Luxembourg is a signatory of the Treaty of Rome and can therefore expect more concessions than can Jersey, but more important, the population problem in Luxembourg is not caused by immigration as a result of low taxes to the extent that it is in Jersey. The EEC is as likely to tell Jersey to change its taxes to discourage immigration as it is to allow immigration controls and the discriminatory housing policy to continue. It should also be noted that if Jersey enters the Community and receive no concessions at all then the island would suffer such a depression that all immigration would be discouraged anyway.

Harmonisation of social security legislation presents some problems for Jersey but these should not be too difficult to overcome. The Six have not provided specifically for the harmonisation of social security systems but as this issue affects the mobility of labour and also because contributions are a quasi-tax, pressure for harmonisation can be expected in the future. The structure of the Jersey social security system is already

similar to those in the UK and the Six in that it is insurance based, although both contributions and benefits tend to be lower than elsewhere. The Report on Jersey and the EEC (21) has suggested that entry into the Community would mean that family allowances would probably have to be paid to the dependents of Community nationals working in the island. As the number of Community nationals from an enlarged EEC working in Jersey in the summer months will be about 10,000, this would place some strain on the island's resources. Perhaps more important is that no unemployment benefit is paid in Jersey and it is unlikely that the Community would allow this to continue as it is a positive obstacle to the free movement of labour. If unemployment benefit was payable without any need for a contribution record in the island as opposed to the Community, this would be expensive for Jersey and would serve to encourage seasonal workers who may not be needed and who increase pressure on housing. However, it is unlikely that this "country of residence" principle will be applied to social security systems for a long time to come. At present, the scheme whereby benefits are payable under reciprocal arrangements, but by which the benefits are paid by the country to which the contributions have been made, works well and Jersey already has such arrangements with Italy and France. To extend these arrangements to the other members of an enlarged EEC would be neither difficult no expensive. The big danger to Jersey would only come if a single community wide comprehensive social security scheme were introduced but the chances of this happening in the foreseeable future are nil; it would certainly be much more difficult to achieve than a VAT organised on the origin principle.

Finally in the section, mention should be made of equal pay for women, which is specifically provided for in Article 119 of the Rome Treaty. The Thurston Report calculated that in the retail and service trade, there is a 25% difference in wage rates between men and women and if this differential was removed the effect on the competitiveness of Jersey's tourist industry would be very harmful. However, the EEC has not made much progress in this field as yet, and even if equal pay were introduced, it would not be beyond the ability of Jersey employers to get around it.

The effect of the EEC's agricultural policy on Jersey

Agriculture in the EEC is as much a political as an economic issue and consequently changes in the Common Agricultural Policy (CAP) can be expected should Britain and other applicants enter the Community. Because of this factor and also because the issue is so complicated, it is difficult to speculate on the exact effects of entry into the EEC on agriculture in Jersey. All that can be certain is that Jersey would no longer receive preferential treatment in the British market; produce from other EEC countries will also enter the UK free of duty. The recent agreement by Britain to allow Community produce free entry into the UK from the date of entry has already condemned Jersey producers to much stiffer competition and in all probability a consequent loss of markets.

The effect of the loss of tariff protection for Jersey in the UK will vary from commodity to commodity. Jersey will not be affected by the CAP as much as Britain will be, because the island's products are horticultural and the CAP does not affect many of these. However, increased competition in the British market will be inevitable. For cauliflowers (£750,000 of exports to Britain in 1970), competition will come from France and Italy; for flowers (£1,500,000) from the Netherlands, France and Belgium; and for tomatoes (£2 million) from Italy and France. The main export crop, potatoes (£3 million), would face increased competition from Brittany, Belgium and Italy, but this would be offset to some extent because potatoes from Spain and the Canary Islands, which form a large

proportion of British imports, would be discouraged because the common Community tariff will probably be higher than that at present in force in the UK. That target price for milk would mean that Jersey farmers would have to cut costs considerably in order to remain profitable - the price of milk in Jersey is already well above that in Britain.

In general, Jersey agriculture will have to become far more efficient if it is to compete in the EEC. Holdings are small; a study by Exeter University included in the Report on Jersey and the EEC calculated that only 17% of the 1,200 holdings in the island were over 50 vergees (about 25 acres). However, these holdings are far more intensively cultivated than in the EEC. A Cambridge economist, Hinton (12) has pointed out that the value of production in Jersey is £562 per acre, probably the highest figure in Europe and six times that in Britain. Because of the high price of land in Jersey there is not the scope for forming large units that there is elsewhere in Europe and, as in other countries, many Jersey farmers have no wish to modernise or merge their holdings anyway. Even if capital is poured into the industry, Jersey agriculture will continue to remain relatively inefficient because of the high freight costs, relatively few economies of scale and also the high price of land. Thus, in general, the effect on agriculture should Jersey enter the EEC would be to sharply increase competition and this must reduce income in the farming sector.

The effect of the CAP on tourism also deserves a brief mention, as food prices are bound to be pushed up. The White Paper on Britain and the European Communities (24) estimated that British entry would push up the retail price index of food by 18-26%, and there is no reason to think that this figure would be significantly different the jersey. This would naturally be reflected in hotel and restaurant charges and tourism in Jersey would suffer a further loss of competitiveness. However, British resorts would face a similar rise in prices and thus the effect on Jersey will be lessened in as much as the island competes with Bournemouth, Blackpool etc.

The consequences to Jersey of not entering the EEC with Britain

It is a distinct possibility that Jersey will opt to stay outside the EEC should Britain enter and this would have profound effects on the economic structure of the island. A decision to stay out with no special terms would be disastrous for agriculture; very much worse than merely having to face increased competition in the British market from other EEC producers. The idea of the protectionist CAP is to stop goods from outside the Community entering the EEC, and with respect to Jersey produce this would almost certainly succeed. As Jersey produce already faces stiff competition from EEC producers who have to surmount a high tariff barrier, it is not difficult to imagine what the effect would be if continental producers had free access to the British market, while Jersey farmers had to overcome the tariff. Dr Thurston calculated on the basis of 1966 figures, that the charge to Jersey exports by way of the CET alone would be £2.5 million, representing an average tariff of 17-20%. This could not be borne by existing profit margins and if passed on to the British consumer would almost certainly result in a sharp decline in sales.

Attempts to overcome the problems of agriculture by concentrating more on production for domestic consumption rather than the export cannot be expected to bring much relief. A community of 70,000 people, used to a high standard of living, cannot expect to produce all its own food without doing so at great cost and the result would be an unacceptably high rise in Jersey food prices, which would have an adverse affect on

tourism. Even if Jersey stays out, British entry into the EEC can be expected to lead to higher food prices in the island, because Jersey's food requirements are almost entirely imported from the UK. As food reaches Jersey through the British distributive network (as far as most British producers and wholesalers are concerned, Jersey is as much a part of the UK as is Plymouth or Ilford), the full price effect of the Community's CAP can be expected to be felt on the island, although relief from any VAT could be expected.

Agriculture will be the industry that will suffer most if Jersey does decide to stay outside the EEC, but it was noted in the first part of this paper that agriculture is not very important in the island's economy and the contraction of national income as a result of the decline of this sector would not be very great; the social effects will be highly significant however. The effect on Jersey's manufacturing industry would also be severe, but again the sector is not a significant contributor to national income. A number of firms (of which RCA is the most notable) have established in Jersey because of the island's tax position, relatively cheap labour and free access to the British market. The loss of this last factor would make it pointless to set up in Jersey as goods could not then be exported to any neighbouring country without facing a tariff barrier. As virtually all Jersey's manufacturing firms (which together employ between 1,000 and 1,500 people) produce almost entirely for export this factor may well encourage some to close down, a prospect that certainly cannot be welcomed.

The effect of staying outside the EEC on Jersey's tax avoidance industry depends very largely on what attitude Britain takes, and it is impossible to predict what would happen. Certainly Jersey would remain free to set its own tax levels and as none of the factors that make British taxes higher than those in Jersey would change, there is no reason to think that taxes need be raised significantly. If any extra tax revenue is needed then a general sales tax is a possibility, because this would not affect Jersey's status as a tax haven. However, it would adversely affect tourism, but provided that the rate of tax is kept below British VAT rates, goods will still be cheaper than in the UK.

The big question for Jersey is whether monetary union with the UK can be maintained, because this is the key to Jersey's success as a tax haven. The view in the island is that Britain will find it difficult to impose exchange controls against Jersey and as long as this is the case it seems that Jersey's banking industry is reasonably safe. If, however, the EEC does form an economic and monetary union, and the chances of this are not high, then obviously Jersey cannot expect to retain its privileged position with regard to the United Kingdom because this would completely distort the free flow of capital. It is also quite possible that the other EEC countries, in particular France, may put pressure on Britain to reduce Jersey's attractiveness as a tax haven as soon as she enters the Community. Jersey is already used as a tax haven with respect to the Six and the more that Britain becomes integrated with the other members of the Community the more the distortionary effects of this will become apparent. It was noted in the first part of this paper that finance and banking in Jersey is dependent on British tax laws and the island authorities cannot complain in Britain chooses to amend these laws, even if this results from outside pressures.

The effect on tourism in Jersey should the island remain outside the EEC, and this is by far the most important factor, largely depends on the sum of the factors above. The inevitable rise in food prices will reduce competitiveness but as long as tax avoidance can continue, Jersey should be able to keep down direct taxes and the taxes on beer, wines, spirits and tobacco. Also, as prices can be expected to rise in the UK as a result

of the CAP and VAT, Jersey may become marginally more competitive against British resorts. If Jersey does decide to go it alone then the tourist industry will become even more important than it is now as a provider of income. Thus any measures likely to reduce the competitiveness of the industry must be vigorously resisted.

The chances of special arrangements

The analysis so far has shown that British entry into the EEC will have harmful effects on Jersey, whether the island goes in or cuts her links with Britain and remains outside. Consequently, it is vital that Jersey should obtain special arrangements if it wants to retain and increase its present prosperity. This was roughly the conclusion of the Report on Jersey and the EEC (21): “It is clear from consideration of the main factors set out in this report that if the UK enters the Community, grievous results would flow for the island unless special arrangements made”. The recommendation of the report was that: “In the event of the UK 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 United Kingdom free of duty”.

Jersey is that asking for a continuation of the present relationship with Britain and should this be achieved then the only immediate adverse effects would be more competition for island farmers in the UK market and higher food prices. Certainly there are precedents for special arrangements within the EEC for small countries or islands with strong ties with a member country. The Protocol to the Rome Treaty on Goods Originating in or coming from Certain Countries and Enjoying Special Treatment upon Importation into One of the Member States is relevant in this respect. Article 1 states: “The giving of effect to the Treaty setting up the EEC shall not entail any alteration in the customs treatment applicable when the Treaty comes into force, to the importation:

a) Into the Benelux countries of goods originating in all coming from Surinam or the Dutch Antilles.
b) Into France of goods originating in or coming from Morocco, Tunisia, the Republic of Vietnam, Cambodia or Laos. The above provisions shall also apply to the Condominium of the New Hebrides.
c) Into Italy of good originating in or coming from Libya or the Trusteeship Territory of Somalia, currently under Italian administration.”

All these territories are dependent on exporting produce to their mother countries as his Jersey and thus the Protocol might seem relevant to the island. Jersey’s right to export free of duty to Britain was originally formalised in 1341 when Edward III granted a Royal Charter to Jersey that confirmed ”all privileges, liberties, immunities, exemptions, and customs in persons goods money and other things……….without hindrance or molestation”. Thus Jersey’s claim to free entry into Britain certainly predates that of any of the above states into their respective markets, and the island’s economy has adapted itself to this privilege. However, there is a basic difference between all of the above territories and Jersey; all are poor and thus it is reasonable that they should continue to receive preferential treatment from the EEC. Jersey is not poor; in fact it is richer than any of the Six or the Ten and consequently privileges cannot be expected to be obtained so easily. It is also important to note that the states that benefit from the Protocol are not likely to cause the EEC countries to lose markets and consequently there was little opposition to the special arrangements being included in the Rome Treaty. The extension of the Protocol to Jersey would, however, adversely affect the prospects of Community producers anxious to dispose of surplus production in the British market and

consequently opposition will be expressed to such special arrangements for the islands.

Similar arguments apply to other territories that have special relationships with the EEC. The Thurston Report made a detailed examination of such areas and this is worth summarising because it contains a number of factors relevant to Jersey. The existence of such territories indicates that EEC rules have been "bent" and that Article 227-4 has not been fully applied. The position of Heligoland is of particular interest to Jersey. It is politically part of Germany but remains exempt from VAT and the CET, a position that Jersey would be reasonably happy with except for the fact that Heligoland is subject to Germany's direct taxes. However, Heligoland with a population of only 2,800 is so small as to be insignificant; it certainly does not distort the operation of the common market as Jersey would and for this reason the case cannot be used to support special treatment for Jersey. Campione, which geographically is part of Switzerland, although politically part of Italy, provides another exception to Article 227-4. It is excluded from Italian customs duties and indirect taxes and also from direct taxes, although this owes more to a refusal to pay than to a deliberate act of policy. Like Heligoland, Campioni is insignificant, being only one square mile in area and as it also does not distort the operation of the EEC, cannot really be considered to be of much interest to Jersey. Much the same applies to Andorra, which is jointly ruled by Spain and France, and the Zone Franche and St. Gingolph, which politically part of France although geographically they are in Switzerland.

These examples do show that the EEC includes small states which are half in and half out but to try to secure an analogous position with Jersey, it is necessary to look at tax havens rather than insignificant spots of territory. Monaco is, of course, the best example in this respect. It is in economic and monetary union with France but the 1963 Treaty removed many of the tax concessions enjoy by the principality. It is now subject to French VAT and customs duties and revenue is shared out under a common purse arrangement. San Marino is another oddity similar to Monaco and it is within the CET and outside most of the provisions of the EEC. However, it too is no longer a tax haven.

The Thurston Report made the great mistake of looking only at the legal aspects of the special cases. It has certainly shown that Article 227-4 is not fully applied (but then, neither are many of the other articles), but it is ignored only because it is politically and economically expedient to do so. As long as these special cases do not harm the working of the EEC it would be a waste of time and effort for the Council and Commission try to bring them within the provisions of the Rome Treaty. In fact, most of the special cases have never even been discussed in Brussels and everyone is quite content to turn a blind eye to them. It is inconceivable that the EEC will turn a blind eye to Jersey and special arrangements will have to be negotiated if the island is to occupy a position neither wholly within, not wholly outside the community. For this reason the positions of Malta, the Faroe Islands, Sweden and New Zealand merit some attention.

The association agreement that has been reached between Malta and the EEC might appear to be of interest to Jersey because Malta is tax haven. Over a ten-year period Malta is to form a customs union with the EEC but there are not even to be any negotiations on agricultural trade until the end of the first five-year stage. There is no provision either for the harmonization of economic policies, or for eventual full membership, but there are provisions the non-discrimination between states, nationals, companies or products of the Community and Malta. This agreement is of great interest to Jersey, although perhaps not as significant as some in Jersey would like to believe. It

is true that Malta partly has the position that Jersey is aiming for, i.e. within the CET but outside the EEC. However, there are no immediate provisions for agriculture and one wonders whether in five years time, the EEC will be prepared to allow Maltese agricultural produce free entry into the EEC. This factor, especially when one considers that Maltese agriculture is insignificant compared with the industry in Jersey, is ominous. Special arrangements in Jersey must be centred on agriculture. Two other factors must also be remembered when trying to compare the position of Malta with that of Jersey:

i) Malta, unlike Jersey, is not a rich island and the EEC is trying to help its development.
ii) Malta already trades significantly with the Six. Of its total exports in 1969 of $34 million, $6 million went to the Six while over a third of the island's $123 million imports came from the Community. Malta is large enough (324,000 population) to be a much more interest to Community producers than Jersey is.

Even despite all these qualifications, the Malta agreement must give some encouragement to Jersey, because it indicates that the Community is prepared to make special arrangements with small countries and islands. On the other hand, it should be remembered that Malta, unlike Jersey, is fully independent and negotiated her own case; no one from Jersey has yet gone to Brussels and when the time comes to negotiate special arrangements it will be Britain who will be doing the negotiating

The position of the Faroes is interesting because when Denmark applied for entry into the EEC, it singled out the Faroes as a special problem to be overcome during the negotiations. Like Jersey, the Faroes are subject to Article 227-4 of the present Rome Treaty, being a European territory for whose external relations Denmark is responsible. Like Jersey, the Faroes have tax autonomy but they are not a tax haven. Their population is only 35,000 and total exports, comprising almost entirely fish, are worth around £8 million a year. Denmark has made it clear that it wants a long-term solution to the Faroes and not merely transitional arrangements and it looks as though it wants a status similar to that which Algeria was granted under Article 227-2. Denmark wants special arrangements with respect to the common fisheries policy, the right of establishment and the granting of government subsidies. If Denmark does succeed in getting special arrangements for the Faroes then this must be of some relevance to Jersey. However, again the situation in the Faroes is different to that in Jersey because they are not a tax haven, they are relatively poor and the special arrangements that they are seeking would not distort the operation of the common market to the extent that the special arrangements that Jersey is seeking would.

The relevance of Sweden to Jersey is apparent because it too is seeking to be inside the CET and outside the EEC. However, as yet, it is difficult to draw any conclusions because negotiations have not begun and also because Sweden and the EEC do not appear to know exactly what their attitude is to each other. Sweden has made it clear that it is not prepared to become a full member, because of the implications of the Davignon Report on the co-ordination of foreign policies and the decision to go ahead with economic and monetary union conflict with its policy of neutrality. Sweden is seeking participation with the EEC in a common market covering both industrial and agricultural goods. This position is somewhat ambivalent because there can be no common market without some measure of fiscal and monetary co-ordination, and Sweden appears to be seeking all the advantages of joining the EEC with none of the disadvantages. The EEC will probably agree without much trouble to a common market

in industrial goods but it is difficult to see any satisfactory agreement on agriculture being reached. Sweden is apparently ready to accept the EEC's CAP and sees no difficulty in implementing it. However, this would mean that decisions affecting target prices, structural reforms etc would be taken without any reference to it and this does not seem to be very satisfactory. On the other hand, the CAP has cost the Community a lot of money and by its intended nature is highly protectionist; it is unlikely that France in particular would allow outsiders to compete with Community producers, unless they also enlarge the market significantly. Sweden, like Jersey but unlike the UK, will add more to the supply of agricultural goods than to the demand. If, however, the Community is prepared to accept Sweden as being inside the CET but outside most of the provisions of the EEC, then this must be of some comfort to Jersey. On the other hand, it must also be remembered that Sweden has something to offer the EEC in the form of a prosperous population and an advanced industrial sector; Jersey has nothing to offer.

Finally the position of New Zealand merits some attention, because, like Jersey, it is very dependent on the British market for its agricultural exports. Britain has made it clear that it is seeking special arrangements for New Zealand. The UK chief negotiator, Geoffrey Rippon (18) has said: "Towards New Zealand we have a strong sense of responsibility: towards a small island community at the other end of the world with limited resources and few means of diversification………….. If access to Europe for New Zealand dairy produce were cut off, there would be a social as well as an economic disaster……. I do not believe that the countries of Northern Europe with a population of 300 million could contemplate with equanimity the ruin of a community with 2¾ million Europeans - less than the population of any of our large industrial towns".

This quotation is very relevant to Jersey because unless special arrangements are made, the island, like New Zealand, faces ruin. Thus the special terms that Britain is able to negotiate for New Zealand will be of great interest in Jersey. Allowing New Zealand produce into Britain would be a major breach of the principle of Community preference, one of the dominant features of the EEC, and some of the advantage to the Six of British entry would be lost. If such an arrangement is obtained for New Zealand then there is no reason why Jersey should not have similar terms. However, while it is of comfort for Jersey to know that the UK is seeking special terms for New Zealand, it is somewhat disturbing that the Channel Islands are not a point for negotiation, and the question of concessions would only arise after Britain has signed the Treaty of Rome. It is also disturbing to note that Britain is finding it very difficult to negotiate special terms for New Zealand. The fact that New Zealand, like Jersey, is wealthy is partly responsible for this. Agreement over the Commonwealth sugar producers was more easily reached because they are all relatively poor and the EEC has a commitment to help the developing countries.

Conclusions

The conclusion of this paper is clear: British entry into the EEC, whatever Jersey does, is the greatest threat that the island has ever had to face. Britain, rightly or wrongly, has decided that it is in her interests to join the EEC and cannot be expected to sacrifice any of her interests for those of Jersey. By being dependent on tourism and tax avoidance, Jersey's economy is insecure and the island government, by default rather than by design, has allowed the situation to develop. Jersey now looks like having to pay the price for these insecure foundations.

The ideal solution, of course, is that the negotiations between Britain and the EEC should break down. However, if negotiations succeed then Jersey must make the best of a bad job and plea for special concessions. The word plea is appropriate. Some sections of opinion in Jersey are demanding that the island should get tough with Britain and ensure that Jersey's "rights" are maintained. Such people should be warned that the first essential of gunboat diplomacy is a gunboat. It would be convenient of Britain and the EEC to forget Jersey but one hopes that they will not do this. Jersey must rely for its special arrangements on the goodwill of the British government and the willingness of the Community to allow a major exception to Article 227-4.

Jersey cannot look forward to many special terms. What the island wants, i.e. inside the CET but outside the EEC, is likely to be achieved for industrial goods as the effects of this on the operation of the common market would be negligible. However, this is not likely to be achieved for agriculture and thus a decision to stay out would ruin Jersey farmers. It is in the interests of the agricultural sector that the island should enter the EEC along with Britain, but surprisingly the farmers are not pushing for this. With respect to tourism and finance and banking the evidence points in the opposite direction. However, the island would be well advised to make a very detailed study of the extent to which tax harmonisation is likely to be achieved in the Community and the degree to which Jersey would be able to remain a tax haven should it join; the Thurston Report is thoroughly inadequate in this respect.

It would be foolish at this stage to say what Jersey should do because this depends on any special arrangements. There are terms on which Jersey would be advised to go in but these would have to be very generous. However, at present, the likelihood is that such terms will not be achieved and that Jersey will stay out. All that one can say at the moment is that the island will probably be better wholly out than wholly in; the idea of a common market is anathema to an economy that survives by being different.

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