HOUSE OF LORDS

Select Committee on the European Union

Corrected oral evidence: Brexit: Crown Dependencies

Tuesday 20 December 2016

4.05 pm

Watch the meeting

Members present: Lord Boswell of Aynho (Chairman); Baroness Browning; Baroness Falkner of Margravine; Lord Green of Hurstpierpoint; Lord Jay of Ewelme; Baroness Prashar; Lord Selkirk of Douglas; Baroness Suttie; Lord Teverson; Lord Whitty; Baroness Wilcox; Lord Woolmer of Leeds.

Evidence Session No. 1 Heard in Public Questions 1 - 12

Witnesses

I: Chief Minister Howard Quayle MHK, Chief Minister of the Isle of Man; Chief Minister Ian Gorst, Chief Minister of Jersey; Chief Minister Gavin St Pier, Chief Minister of Guernsey.

Examination of witnesses

Chief Minister Howard Quayle MHK, Chief Minister Ian Gorst and Chief Minister Gavin St Pier.

Q1 **The Chairman:** Good afternoon to our trinity of Chief Ministers. We are very pleased and honoured that you have been able to attend our Committee at the beginning of our short inquiry on the specific and distinctive position of the Crown Dependencies in relation to the European Union. We will follow our usual rules of engagement, with which I think you will be broadly familiar. The session is in public and will be webcast. We will send you a transcript, which will be subject to any factual corrections that there may be.

I would like to signal that we are interested not only in what you have to say today but in a continuing relationship with you through what is bound to be a fairly difficult period, making sure that things are not overlooked by us or by Her Majesty's Government and that your interests are properly understood and safeguarded. That is what we are about. In terms of the word "interests", I remind colleagues that if they have a specific interest relating to any one of the three Crown Dependencies represented here, they should declare it. Generic interests are taken as read by us.

I repeat our very warm welcome to you. It might be helpful if we invite each of you to make a short opening statement to set the scene and if I give a broad hint, not least because time presses before Christmas, that if there are occasions when you simply wish briefly to say, "I agree with my colleague", we will understand. Please feel that your interests are being represented. We do not need it in extenso from all three, but equally we are interested in any differences of emphasis that you want to develop. Shall we start with Mr Quayle, if we may?

Hon Howard Quayle: Thank you, my Lords. May I begin by thanking you for the invitation to appear before you today. The Isle of Man is not part of the European Union, so it might appear that the UK leaving the EU would not have any effect on us, but it is not quite so straightforward. While not included in the UK's membership of the European Union, the Isle of Man has a limited relationship with it. This is set out in Protocol 3 of the UK's treaty of accession. Our Protocol 3 relationship is dependent, therefore, on the UK remaining a member. It is an association that has served us well for over 40 years. Prior to joining the EU, the UK consulted the Isle of Man. We determined that we did not wish to join the EU with the UK. However, we had concerns that we might not be able to continue to trade or move freely between the Isle of Man and the UK once the UK became a member. Protocol 3 was put in place to allow this relationship to continue without bringing us fully into the European Union. It is a short and relatively simple statement but, as we are discovering, unpicking our relationship with the EU will not be simple. When the UK joined, the drafting of Protocol 3 was done almost as an afterthought, but I am pleased to say that this time engagement has improved considerably. We were invited to take part in the balance of competencies review in 2014.

We are currently included in discussions with a number of government departments that are working to develop the UK's negotiating position. Here in Westminster, we have been invited to give our views to the House of Commons Justice Committee and Foreign Affairs Committee. I am pleased to be invited to explore some of these issues today.

Deputy Gavin St Pier: I add my thanks for the invitation. We are immensely grateful for the opportunity to give evidence to you and for your continued interest in this matter over the next couple of years as events unfold. By way of a little additional background to the comments from Howard on Protocol 3, it is probably worth making the point that Guernsey is made up of three separate jurisdictions: Guernsey, Alderney and Sark. That adds yet another layer of complication, because each island is a self-governing Dependency of the Crown, with its own directly elected legislature and fiscal and legal systems. Guernsey is the largest, with around 63,000 people; Alderney has about 2,000 and Sark has about 500. Within that set of relationships, there is an additional layer of complexity that I will not go into today except to say that there is a fiscal union between Alderney and Guernsey and some core services are provided by Guernsey for Alderney. I emphasise that, while I am elected to represent Guernsey today, outside the special relationship with Alderney, we are working closely with Alderney and Sark to ensure that those islands are well briefed on and engaged in this process as well, because clearly it will affect them. Like all the Crown Dependencies, we are not represented in Parliament but, importantly, Her Majesty's Government, on behalf of the Crown, is responsible for defence and, in the context of this inquiry, for representing our interests, even if those interests may differ from those of the UK.

Certain EU legislation directly applies to us and we have to consider how we are going to deal with that. We have chosen to adopt other elements of EU legislation—for example, on data protection and anti-money-laundering. We have a whole raft of other international standards that we sign up to. As part of being a responsible financial services jurisdiction, we are committed to meeting international standards, which continually evolve. It is worth taking this opportunity to emphasise the importance that our economy plays in the City of London and in the UK in a broader sense. Our funds industry in particular funnels around £25 billion of inward investment into the UK and £50 billion into the EU. Around £35 billion of Guernsey funds are invested in various UK infrastructure assets. In summary, while Guernsey is not part of the United Kingdom or of the European Union, we place huge value on all those relationships, our ability to move freely and our access to markets. Our objective through this process is to try to preserve as much of that as we possibly can.

Senator Ian Gorst: Thank you very much indeed for inviting us here today to give evidence about the relationship between the Crown Dependencies and the United Kingdom. For over 800 years, two fundamental principles have governed Jersey's relationship with the United Kingdom: loyalty and autonomy. I refer to over 800 years because in 1204 the Channel Islands, having been part of the Dukedom of

Normandy, decided that they wished to be loyal to the English monarch. That loyalty is connected to our autonomy, which is why we have our own Parliament, police force and judiciary. We act in that autonomous way other than, as the Chief Minister has said, in regard to defence and foreign affairs.

When the UK decided that it was going to join the European Union—as it has become—we decided, as three Crown Dependencies, that we did not wish to be members. But because of the way our economies were built then, we did want to be able to trade goods. We were thinking about agricultural products, because our agricultural industries were extremely important to our economies at that point. It is therefore important that the United Kingdom has decided that it wishes to leave the European Union.

It was right that we could not vote in the referendum, because we are not represented in this place; we have our own Parliament. However, that vote will, of course, affect us and our relationship with the European Union. It will also be important for us to maintain our current relationship with the United Kingdom.

I say up front that we are pleased that that has been recognised by the British Government throughout this process. The Prime Minister herself commented on coming to office that she understood the valued, historical and special relationship that existed between the Crown Dependencies and the United Kingdom. The Chief Minister of Guernsey touched on some of that from an economic perspective. We have strong financial and business service sectors in our communities. In Jersey's case, we funnel up something like half a trillion pounds' worth of foreign investment into the United Kingdom economy, which creates all sorts of jobs. No doubt we will discuss some of that in detail in our conversation today.

We are pleased to be here today to talk about the good relationship we have with the British Government. We wish to ensure that that is maintained after the triggering of Article 50.

Q2 **The Chairman:** Thank you for those three very succinct summaries. We have seen the exchange of letters with the Prime Minister and the response to your collective letter. That is helpful and encouraging, together with some of the points that have been made. For example, I was not previously aware that you had participated in the balance of competencies exercise, which has been of some interest to this committee in the past.

I was going to ask you about the nature and terms of the existing relationship between your jurisdictions and the EU. As I hear it, it basically distils into the famous Protocol 3 relationship. Is there anything you want to add to what you have said in your initial statements? Is there anything we have missed?

Senator Ian Gorst: Perhaps I could pick up on the point made by the Chief Minister of Guernsey. While in a legal sense it is Protocol 3 that governs our relationship with the EU, because of the way that our economies have changed since the early 1970s we have found ourselves wanting—and we have made decisions as Governments—to employ a "good neighbour" policy with regard to that relationship. That has meant that, in some areas, we have put EU directives into domestic law. It has also meant that we have had to show ourselves to be equivalent in various fields. That work is ongoing and the committee's report on financial services picked up on some of those areas. It is also about data protection and air security. In the next two years we will also have to think about transport, energy, the common travel area and immigration. Throughout the years since the 1970s, in order to trade with Europe and show that we were good neighbours, we have made decisions that have incorporated and delivered equivalent legislation.

The Chairman: To pick up a point of fact, I think you and Guernsey are represented together in Brussels and the Isle of Man is separately. Do you also have a connection in Brussels?

Hon Howard Quayle: We have an office in Brussels.

The Chairman: We do not need to probe the details, but do you have a good working relationship where you can hear the messages of what is required to trade with the European Union in services as well as goods? Do you have a good working relationship? I appreciate that you are not negotiating and the British Government are not negotiating yet, but is it set up for you to be able to have a discussion with them?

Senator Ian Gorst: You have just made the point I would have made. You are quite right: Guernsey and Jersey have a joint Channel Island office in Brussels. The Isle of Man has an office there as well. That is important because it allows us to relate to the Commission, to the perm rep offices of other member states and, increasingly importantly, to the European Parliament. In that relationship, we are talking about equivalent standards and where European standards are going that might affect our economy. Again, that is not just about financial services, although they are extremely important. As we go through this, there is an important point to be considered about the divergence of international standards and European ones. Perhaps that is a technical issue which we will come on to in future.

We do not use those offices to talk about Brexit because those negotiations are, rightly, being carried out by the UK Government. But it is important, from an economic perspective, that we use them to understand what is happening in Europe.

The Chairman: I shall come back to that.

Lord Teverson: I understand that you also have a relationship in that you participate in European fishing quotas. I declare my interest as a board member of the Marine Management Organisation.

Senator Ian Gorst: Chairman, you said at the start that you hoped that where we were in agreement we could simply say so. Most of the time the three islands are in agreement but there are times when our direct interests do not align as clearly as we would like. The question about fishing is perhaps one of the areas where we have taken a slightly different view of what it means to be a good neighbour and how we can deal with the issues pragmatically. The Chief Minister of Guernsey will speak for himself, but we have seen some changes on that front. All islands work very positively with Defra. Of course, we in Jersey accept the need to be part of the quota system, so we will also see that change throughout this process.

The Chairman: It is no purpose of mine to reopen the wounds of 1644, but perhaps we ought to ask Guernsey to respond on that.

Deputy Gavin St Pier: The issue of Channel Island fishing alone could form the subject of a completely separate inquiry for this Committee.

The Chairman: We will bear it in mind.

Deputy Gavin St Pier: It is an immensely complex area—a series of relationships or agreements between the UK and France that actually predate the EU, and a series of differences around the access to different waters for Sark and Alderney as well as Guernsey. Recently there has been a judicial review case in which Guernsey was involved relating to an action by Defra, and we are still working through the consequences of that. As I say, this is probably the one area where the positions of Jersey and Guernsey differ. I would simply say as a word of caution that this is going to be one of the most complex areas and, I suggest, not just in relation to the Crown Dependencies.

Q3 **The Chairman:** Thank you for flagging it up. I think we might move into the Irish Sea, if I may put it metaphorically, not least because I saw some interesting working papers from Mr Quayle's Administration on the transposition of legislation. Just as this House will eventually have to consider the so-called great repeal Bill about bringing back onshore European legislation, I realise that your three Administrations are having to engage in a rather parallel exercise, or at least contemplate one. As I have seen your paper, Mr Quayle, I wondered if it was your impression that the ways in which you have approached introducing European legislation—or meeting its requirements, which is not quite the same thing—are broadly in step. Or would you have very different tasks within the three Dependencies regarding what you would need to do or the legal vehicles that you would deliver it under?

Hon Howard Quayle: One of the key differences that the Isle of Man has from the Channel Islands relates to our customs and excise agreement with the UK, which provides for the sharing of VAT and other revenues between the Island and the UK. That is the area of legislation that we shall have to look at closely. Currently there is a lack of clarity on the direction in which that will be going, though, so we have not prepared a paper on the exact issues where we think repeal will be necessary.

Agriculture, animal welfare and so on will be a key issue that we will have to take into account, for example. At the moment, we have a watching brief. We are waiting to see what is agreed, and then we will have to react accordingly.

The Chairman: And that would be the collective view of Jersey and Guernsey as well?

Senator Ian Gorst: It is. With regard to Jersey, we have been developing a draft great repeal Bill but there is a lot more work to be done over the coming weeks and months. My law officers are working extremely closely with government law officers to ensure that we are picking issues up so that, with the Jersey repeal bill, we will reach a position where we have covered everything appropriately. I think there is an acceptance, certainly in Jersey, that it might be that some things fall through the net and we have to come back and deal with them, but I do not think that is an insurmountable issue.

The Chairman: And Guernsey is the same?

Deputy Gavin St Pier: Our position is similar. We have not really had the opportunity to consider in detail what is required, other than having identified that we will need a repeal Bill and recognised that the quantity of legislation that will need repealing or dealing with is considerably less than it will be for the UK. It emphasises the requirement for a close working relationship between the Crown Dependencies and Her Majesty's Government on exactly these sorts of issues so that nothing falls between the cracks.

The Chairman: I shall bring in Baroness Browning in a moment but I have one more question on this, which is in a sense more "political". I think all three of you have spoken of a good working relationship with the relevant Ministers in the British Government who, as you have said, will be conducting the negotiations. It would be helpful if you could confirm that. It would also be interesting if you could indicate whether you felt that that relationship would be maintained through the intensity of the Brexit process and negotiations. It is one thing to have a discussion in Whitehall but quite another to be outside the negotiating room when something pretty intense is happening. Can you carry on that excellent relationship? I hope you can, but it would be useful to know. Who would like to comment on that?

Senator Ian Gorst: I have absolutely no reason to consider anything other than that it will carry on. To date we have had two formal meetings with Robin Walker from DExEU, and we have one in the diary for January. We have agreed with DExEU that we will have such meetings on a quarterly basis throughout the period, not just in the run-up to the triggering of Article 50. From our perspective, the engagement that we have had with the British Government, which started with the coalition Government through the balance of competencies review, has been strengthened with the new Government, not only at political and ministerial level but at officer level as well, where officers from the three

Crown Dependencies have been involved in working groups with their UK counterparts, around free movement and the common travel area, financial services, the customs union and market access and agriculture and fisheries. They are working incredibly well. That has been a model of engagement and consultation. You are right, though; we have to ensure that this excellent model is sustained and meaningful throughout this process, and that is going to require effort and resource on both sides of the table. We in Jersey have put aside £4 million to create the Brexit unit—not a separate unit but right at the heart of government. Of course the British Government as well have put extra resource into the creation of DExEU. Ensuring that there is appropriate resource in those departments will be critical to ensuring that we have sustained and meaningful engagement and consultation through the process.

The Chairman: Is that the view of the other Chief Ministers?

Deputy Gavin St Pier: It is. Our position differs from that in 1972 when the UK was negotiating its way into the European Community; now we have a much greater recognition of the Crown Dependencies' international identity, which was recognised by the UK Government themselves through an international identity framework document in 2008. The environment and our role in it have changed somewhat over the last 43 years. While all the relationships are there now, both at official level and at a political level—that is hugely encouraging, and the UK Government are to be commended on investing the effort and time to achieve that—I suggest that the real test and challenge will come after Article 50 is deployed when there will be a huge level of activity. Our challenge, with the assistance of yourselves and others, is to ensure that we and our interests are not forgotten in the process.

Hon Howard Quayle: I agree with the comments from my colleagues. Since the UK referendum decision, we have had engagement with the Cabinet Office; the Department for Exiting the European Union, as mentioned; the Ministry of Justice; HM Treasury; the Home Office; and the Department for the Environment, Food and Rural Affairs. In addition we have had productive meetings with UK parliamentarians in Westminster, as well as with the devolved Administrations in the margins of the British-Irish Council. Beyond these meetings we have frequent and open dialogue with the UK, and I hope that we will continue in this vein. I have extended an invitation to the Justice Committee to visit the Isle of Man in January, and we are looking forward to that. I equally welcome your opening comments that if we have any problems we should feed them back to you.

The Chairman: Thank you for that. I am not sure that I should not perhaps have declared an interest in that I have a daughter who is a Member of the other place and a member of the Justice Committee. Perhaps in the interests of transparency I should do so.

Q4 **Baroness Browning:** You mentioned your existing relationship with the EU and your offices in Brussels. Since the result of the referendum, has there been any noticeable change in that relationship—either directly with the Commission or with individual countries within the EU?

Deputy Gavin St Pier: Ian can speak with greater authority on the Channel Islands Brussels Office, which has been running for a few years, as he has been Chief Minister of Jersey and has therefore been engaged in the process for longer than I have. He and I recently visited Brussels; I think it was our fourth joint visit and the second this year. The access that our office was able to obtain to a number of Permanent Representatives and the Commission itself remained as good as it had been previously, in terms of being able to get the meetings that we sought. It is fair to say that during the meetings we had, particularly with the Commission, there was a change in tone which recognised that an event of significance had happened for the United Kingdom and that would inevitably have consequences for us. Again, one of the consequences of that visit was a recognition, perhaps implicit in the original question, that we will need to ensure that we maintain our presence in Brussels, perhaps visiting more frequently, which is probably appropriate. In other words, we should enter into direct dialogue to the extent that it is possible, recognising the United Kingdom's responsibility for us in international affairs, to ensure that our voice and interests are heard directly where that is appropriate.

Senator Ian Gorst: It is difficult to say that it has changed. As Chief Minister, I visited the Commission four times. We have had meetings with Commissioners, ambassadors and perm reps. Our office there is very well supported by the UK permanent representation and I have always found those meetings satisfactory. Our visits there are often about educating people, from a constitutional perspective but also from an economic perspective. We currently go—I use this word in its constitutional sense—as Dependencies of a member state. Over the period of the leaving negotiations, I would expect it to change because we will become a Dependency of a non-member state. That relationship will change over the two years. When we visited in November, however, we saw the UK perm rep and those of France, Ireland and Estonia. Our relationship with Europe is about building relationships with other member states. We will need more and deeper relationships with member states because they will replace the United Kingdom around the table of the EU when the UK finds itself a third country.

Deputy Gavin St Pier: May I add one thing that just occurred to me as a hard example of where the Commission's position appears to have changed? It relates to quite a technical issue but, for us as a third country seeking access to markets, it is important. It is also important for the UK in terms of observing the experience. That is, we are on the verge of being granted a passport under something called the alternative investment fund managers' directive but that process has been put on ice by the Commission, citing one or two issues. None the less, it is timely in the context of the Brexit process. That is a hard example of where we have been impacted directly by Brexit.

Senator Ian Gorst: We have not noticed any difference at this moment but it is early days yet. There is an awful lot of water to go under the bridge.

The Chairman: Following up those thoughts, jointly and severally, you have bilateral interests with other member states—with France, obviously, in relation to the Channel Islands, and with the Republic of Ireland, in relation to the Isle of Man in particular, although you are not far from any of those. I notice that the French ambassador sometimes spoke of an interest in the Channel Islands—in an entirely neutral way; I do not wish that to be misinterpreted. Do you have particularly close bilateral relations with those member states?

Senator Ian Gorst: We do. Again, we have a Channel Islands office in France, in Caen, because of the historical links to Normandy. That also builds relationships with Paris. Although France is our cultural heritage, our main trade links are with the United Kingdom; that is our most important relationship, but France is a very close second. Lots of Channel Islanders holiday in France; they have second homes there and feel the cultural connection. There is also the connection of the language to Norman French. That is a very important relationship, albeit that our economic model is sometimes not well understood in Paris. Having said that, we have French financial institutions based in the Channel Islands despite that.

The Chairman: And the Isle of Man?

Hon Howard Quayle: We do not have the relationship with France that the Channel Islands has for obvious reasons. We have a good working relationship with the British-Irish Council and with the Taoiseach, Mr Enda Kenny, especially. From a financial services point of view, the Isle of Man does very little business with the European Union. The majority of our financial services are worldwide. We have a manufacturing industry that makes landing gear for Boeing jets and ejector seats for quite a lot of the world's air forces. Those parts, however, mainly go to the United Kingdom and are then fed into Europe. It is an element we are just watching at the moment; it really is early days. We are maintaining as good a relationship as possible but we are not heavily involved with France in the way that the Channel Islands are.

Q5 **Baroness Wilcox:** What has been the reaction of your people and how many of them met the eligibility criteria to vote in the referendum? It would be nice for us to know how the people feel.

Deputy Gavin St Pier: I suspect the personal reaction has been very mixed, as it probably has been in the United Kingdom. Clearly, the media play a significant role for our residents, as they do here. Our residents have watched this political story unfold since the referendum was announced. Guernsey does not hold data on those who would have been eligible to participate in the referendum. About a quarter of islanders were born in the UK and many will have lived and worked there and acquired the right to vote under the 15-year rule. If you leave UK residence, you retain the right to vote for 15 years. As for how many chose to do so, again, we do not have access to that information; it would be held at a local level in the UK.

Senator Ian Gorst: As the Chief Minister has said, the data would be held by the UK Electoral Commission but we have calculated from our census data that there may have been up to 8,000 British citizens eligible to vote in the referendum.

Baroness Wilcox: Out of how many?

Senator Ian Gorst: Some 102,000, but whether they used their franchise I am not sure. Coming back to the reaction, the Chief Minister is right: the most difficult reaction was among EU nationals, who are an important part of our community. Jersey has about 15,000 non-British EU nationals. We are very mindful of their place in the Channel Islands going forward and throughout this process. We support the work of the Prime Minister in, if at all possible, getting a resolution to that earlier rather than later. They are important members of our community and it is important that they are dealt with fairly so that they continue to feel valued and welcome.

Hon Howard Quayle: We do not keep the data either, but from a population of 85,000 we have circa 4,000 nationals from EU Member States, other than the UK, living on the Isle of Man, of whom some 1,000 are included within the working population. As a Government, we are clear that the issue of the UK's membership of the EU was for the people of the United Kingdom to decide. We therefore maintained a neutral stance in the run-up to the referendum. However, we published two interim reports on the potential impact on the Isle of Man of a vote either to leave or to remain. They were published for the benefit of people living on the island who had the right to vote. The reaction of our politicians, businesses and public immediately after the referendum was less pronounced than in the UK.

We know that we are not part of the EU and so are not actually leaving. This means that the impact will be less than was felt in the United Kingdom. We also know that we must accept, in large part, the new relationship which the UK wishes to negotiate. When that becomes clearer, we will consider how best to make the most of the opportunities and minimise the risks for the island.

Q6 **Lord Green of Hurstpierpoint:** We do not yet know what the British Government's negotiating strategy will be. There has been extensive discussion in the British media and you will be familiar with the various options. So far as trade relationships are concerned, there has been some discussion about whether an EEA template makes any sense or whether or not we should stay in the common external tariff. In particular, I would interested in your views on the impact on your respective jurisdictions if Britain were to come out of the common external tariff. I ask that because that would seem to be the specific decision which would have the most direct effect on your economies.

Senator Ian Gorst: It is, of course, difficult for us to speculate at this point. I reiterate the important point we made earlier: that during the course of the negotiations the British Government continue to engage us about any potential model and the effects it might have on our economies. Currently, we would want to maintain, if possible, the ability to export fish into Europe free of tariffs as we do at the moment, principally into France. Although it is not a great number from a GVA economic perspective, it is a culturally important part of our economy: we are, after all, island communities.

A point that runs right across our economy is that the majority of our agricultural products, the Jersey Royal potato for example, are exported—if I may use that word—to the United Kingdom. From our point of view, the most important relationship that needs to be maintained at the end of this process is with the UK: free movement of goods into the UK, monetary union and no formal borders with it and freedom of trade within the CTA. That is the most important relationship for our economies as a whole. If the UK were to take the approach you suggested in your question, there are certainly implications for our fishing industry and also for other sectors of our economy, though these are far smaller.

Deputy Gavin St Pier: To add to those comments, the key challenge is making sure that the UK does not have a different status from the islands in terms of tariff barriers. Our starting assumption goes back to our original royal charters granting a free market between the islands and what is now the United Kingdom. It is critical that this is retained and that underpins all our objectives in relation to preserving the status quo. As posed in your question, a few challenges potentially come as a result of that, depending on the scenario. For example, if the UK remained in the EEA, which is perhaps speculative and maybe unlikely, then it is likely that aspects of our Protocol 3 agreement would fall away. We would then be left in a different position vis-á-vis that set of relationships than we are currently in, and that would need to be addressed.

At the other end of the spectrum is the so-called hard Brexit option of relying on World Trade Organisation rules. Guernsey and Jersey—unlike the Isle of Man—are not members of the WTO in our own right, so that would again leave us in a different position from the UK, which would need to be addressed. We are seeking to deal with that issue sooner rather than later and address the risk, if it were to arise, by obtaining our own membership of the WTO.

Underpinning your question is the importance of the UK understanding the risks around some of the positions it might adopt and the impact it could have on us, perhaps inadvertently.

Senator Ian Gorst: On the final point about the WTO, the Chief Minister is absolutely right. If we got to the point where the UK fell back to relying on WTO provisions, the simple solution would be to extend the UK's membership of WTO, with the authority of our Parliament, to the Channel Islands. There are options there.

Hon Howard Quayle: Our concerns if tariff introduction were to happen would be, for example, some of the lightweight lambs from our hill sheep which go into Greece, Italy and occasionally Germany. We have king scallops and queenies which go into the European Union. However, our main concerns on the Isle of Man are twofold: the freedom of movement of goods and the freedom of movement of people. These are key for us as we have an ageing population. Most of the developed world does, too, but in the next 20 years there will be a 53% increase in people over the age of 65, with only a 2% to 3% increase in the working population. As an economy, we are looking to grow the working population on the Isle of Man to get over that hurdle. Losing the freedom of movement of people we rely on from the European Union, as well as the United Kingdom, would be a major concern. Maintaining our customs relationship with the United Kingdom is also key. If we come out of the European Customs Union we will have the additional cost of setting up our own borders et cetera. There are lots of costs, but until we know where we are going we cannot plan for them.

The Chairman: As a matter of fact, are a higher proportion of your population over 65 even than, say, in the United Kingdom?

Hon Howard Quayle: Who are living in the UK?

The Chairman: No. I am looking, in particular, at the position of people who may, for example, have retired to the Isle of Man. Does this mean that you have a higher dependent population than the United Kingdom as a whole?

Hon Howard Quayle: I think when I was Health and Social Care Minister and attended various conferences on that topic it was about 1%. Wales has a very similar demographic population to that of the Isle of Man.

The Chairman: That is interesting.

Q7 **Lord Green of Hurstpierpoint:** We have talked about the movement of goods and cultural exports. The flip side is of course the import of physical goods, which we have not talked about. However, I guess that, for all three of your economies, more important than that, in economic if not cultural terms, will be what happens to regulatory equivalence, particularly in the financial services sector but also in others. At the moment you do not have a problem, in that although you do not have passporting and have to go the route of regulatory equivalence, you know what you are aiming at. Presumably, under the new scenario, as of the end of this decade or whenever it takes effect, you will potentially have a real dilemma in that regulatory equivalence with a UK regulatory environment is not necessarily the same as being regulatorily equivalent to a Brussels/EU environment. Is that a complexity that you have yet done any work on? That is perhaps part of a more general question: to what extent have you done detailed homework on some of the implications of these options?

Senator Ian Gorst: I read with great interest your Lordships' report on Brexit and financial services, where far more eminent people than myself admitted that this was an extremely complex area. There are interrelationships and inter-Dependencies between different elements of financial services in the City alone. The effect on the City of any particular model, be it pass-porting or equivalence regimes, would of course be replicated with our economies as well, and trying to quantify that is extremely difficult. We will be starting a number of detailed projects in January, doing some of this quantification work as we go through the process. We did a lot of work in the lead-up to the Brexit vote about what we would like to see preserved in our relationship with the EU if Brexit were to happen. We published reports and we are doing ongoing work there. For a number of years we have had to make decisions about whether from an economic point of view it was the right thing to do to deliver equivalence to the EU directive standards in various markets. We are thinking of MiFID II and AIFMD. Sometimes, because of the models that we have, certainly in Jersey, the answer is that it is not the right thing to seek equivalence. There is a whole other layer of complexity about whether equivalence is a technical process, or a technical process with a political overlay. When it is a technical process, we have the ability to meet technical process requirements, as we have shown with AIFMD, but then you have the overlaying of a political process, and we have yet to see how that will end. So we have been living as third countries in this particular field of our economy for many years. We think we have navigated it successfully and we see no reason why we should not continue to do so. We feel strongly that, navigating together with the City because of our symbiotic, mutually beneficial relationship with the UK economy, both economies can be successful into the future. However, it is not a straightforward technical approach.

The Chairman: Is that the view of the other Dependencies?

Deputy Gavin St Pier: Yes, it is. I would add some additional points. Clearly the third-country relationship that we currently have with the EU predates the Brexit process, and there is no reason for us to believe anything other than that it will continue, certainly in its current state, beyond whatever the date is—as you said, at the end of the decade or whenever. The challenge of course is to what extent the rules of the game around equivalence change because the EU is now dealing with a larger third country—namely, the UK. So there is less of an issue around the existing third-country relationships that give us equivalence into the EU than there might be around new ones. The Chief Minister has cited the issue of the alternative investment fund management directive and how that has become a politicised process as a result. As an example of something else that we are seeking to ensure equivalence of, and therefore access to markets through, there is a commitment of Jersey and Guernsey to adopt the latest general data protection regulations in that regime from 2018. That is something that the two jurisdictions are working together on to ensure that we have equivalence when required.

Senator Ian Gorst: There is another layer of complexity that we often miss out, which I think your Lordships' report touched on: not every directive even includes equivalence provisions. That is another great difficulty. We know that Lord Hill, when he was Commissioner, was leading an excellent piece of work on capital markets union, trying to ensure that the EU was open to cross-border flows of capital, but even that was difficult to get equivalence measures into. We still have to see whether there will be equivalence measures in that particular portfolio as well.

The Chairman: Other colleagues are taking an interest. I call Baroness Falkner, who in fact chaired our sub-committee that looked at financial services.

Q8 **Baroness Falkner of Margravine:** I am slightly intrigued. I accept your comments that equivalence fits in some areas but not in others, and that Jersey has been successful in AIFMD. However, I think Mr St Pier said that Guernsey had not been, and that the process had been frozen.

Deputy Gavin St Pier: All three islands are in exactly the same position.

Baroness Falkner of Margravine: So you have all had some success there?

Deputy Gavin St Pier: Correct.

Baroness Falkner of Margravine: It seems to me that in your early responses on customs union, WTO rules and all that, you were quite sanguine, but of course financial services are not included in that. GATS is very limited in its coverage of financial services, and under the model we have Turkey does not have that. So if on the day that exit happened we were all equivalent but then there was regulatory divergence in the EU from the UK for whatever reason—in the report we recommended that there should be a forum for co-operation at that level, but assume that for whatever reason there is not—would you have a choice to follow UK standards rather than EU standards, for example, and have you done any mapping of the impact of that?

Senator Ian Gorst: Some of that thinking about mapping and understanding is the work that we are doing now and which we will be thinking about into the future. However, that is not an unusual position in which to find ourselves, because we have already had to do that in making decisions about whether we were going to meet those equivalent standards with the EU. So our economic models are that we gather funds from around the globe—this is very broadly speaking—and upstream them into the UK and into Europe. There is mapping that we would be able to do to understand which equivalence standards we should follow. As I tried to indicate earlier, the most important equivalence standards for us to follow are the UK's, because the UK is our main trading partner as well as our historical constitutional loyalty, as I explained right at the start. The interesting thing about equivalence is that there is already a divergence between EU standards in certain areas—and it is pushing that divergence—from the international standards that we see coming out of the IMF and the OECD. We have always been, and remain, absolutely committed to the international standards coming out of the international standard-setting bodies where there is appropriate peer review. We have no issue with that. In fact, we have been right at the forefront of a number of those standards. There will be a challenge, but it will be a challenge that we will share and navigate with the United Kingdom as they become third countries about that divergence of standards between the EU standards and those of the rest of the world.

Baroness Falkner of Margravine: Thank you for that. I do not want to lead you at all on the next question, but are you concerned about a cliff edge? Are you concerned about a dramatic break rather than a period that enables you to adjust? Finally, are the institutions based in your jurisdictions thinking of relocating?

Senator Ian Gorst: I will not be led, much as I might wish to be. Last week, you had a hearing with Fabian Picardo, the Chief Minister of Gibraltar. Our relationship with the EU is virtually the mirror opposite of Gibraltar's relationship with the EU. For financial services, there is not for us a cliff edge, as you put it, because we are already a third country for financial services, which is the great driver of our economy.

Baroness Falkner of Margravine: And on relocation?

Senator Ian Gorst: So far we are not seeing that and we see no reason to see it, because we are already a third country and we already have bilateral relationships in areas of equivalence where we think that those are appropriate and not otherwise. We know that from a financial services perspective there has been consolidation ever since the recession of 2007-08. As ever, we have seen consolidation into Jersey. We have now recovered in financial services; there are over 13,000 jobs, which is at the pre-2007 recession levels. We have fought hard to ensure that people are choosing to consolidate into our island rather than the reverse. We will see an ongoing consolidation of some areas of financial services, just as we have seen other areas grow.

Deputy Gavin St Pier: I would emphasise the first point. When you talk about a cliff edge, that has real meaning for the City of London, because there is such a transition from being a member state to being outside, but it does not have the same resonance for us, as we are already third countries. The local financial institutions are doing what I would expect them to, which is to engage with the issues and seek to understand to what extent they need to change their business models and whether they provide any opportunities. An awful lot of that sort of work is going on, but no hard examples of those looking to exit our jurisdiction as a result of this decision have become apparent to me, certainly for Guernsey.

The Chairman: Is it the same news from the Isle of Man?

Hon Howard Quayle: I agree with both my colleagues. We have not seen any hardening; in fact, we are in our 32nd year of continuous economic growth and our national insurance and tax receipts are on the up. We have 700 or 800 more people in work now than at this quarter last year. While our business community is very concerned with what is happening, we have undertaken to do as much lobbying and listening as possible. We will be having numerous discussions and we are sharing all the information to let the business community know that we are working on its behalf, keeping it happy and looking after its interests. It is just a case of having good communication and assuring it that we will react. It is in all our interests to make Brexit work.

The Chairman: Thank you. We will move on in a moment to the common travel area issues. To bridge that, I was interested in the earlier exchanges about freedom of movement. I am not quite sure whether there are some differences between the Channel Islands and the Isle of Man in that respect or, if not in the present regime, in what you might seek.

Senator Ian Gorst: I will start and be brief; you will have noticed that I find that quite difficult. Because of the common travel area, we benefit—if I may use that word—from the free movement of people who come into the United Kingdom; because of the common travel area, they can come over to our islands. Each of us puts a layer of legislation over that, which acts as a control, but it acts in a non-discriminatory manner.

The Chairman: You are obligated under the treaties to do that.

Senator Ian Gorst: Yes. That base is common across the islands. The way in which we devise and operate that control is where there are slight differences.

The Chairman: Is the Isle of Man a little different?

Hon Howard Quayle: It is a little different. We can foresee implications for the common travel area, but much depends on the arrangements that the United Kingdom reaches with the European Union. The Isle of Man's immigration legislation mirrors UK legislation. We have a work permit system on the Isle of Man that treats workers from the United Kingdom the same as workers from other members of the European Union. That is one area where we probably differ from the other Crown Dependencies.

The Chairman: These questions are rather coming together. Lord Woolmer is next, followed by Lord Jay.

Q9 **Lord Woolmer of Leeds:** I will go back briefly to the previous questions. I assume that you, in particular Jersey and Guernsey, have access to the EU on the basis of a third-country status, which has given you the ability to market funds and so on under certain parts of the legislative framework. Does that mean that, as and when the UK leaves the EU, that does not affect your third-country status and your ability to market into the EU where that is relevant? In principle, would it be possible to extend that into a passport relationship as a third country and not a member of the EU? Lastly, how significant in practice is the marketing of funds into the EU compared to the rest of the world, because you have global institutions in your states?

Deputy Gavin St Pier: Our expectation and understanding are that there is no reason why the third-country access that we currently have—whether by equivalence or, if it had been by passport, for example, through the AIFMD—should not continue. The pre-existing arrangements and agreements would continue for us as a third country. We are outside the EU now and nothing has changed; we remain outside the EU post-Brexit. As the Chief Minister of Jersey indicated, we trade a number of financial services into the EU, whether funds or insurance, and different directives apply. The most significant trade relationship in financial services remains with the United Kingdom, but the rest of the European Union is a significant trading bloc for us. Maintaining our current level of access is a key objective, to ensure that, as premised by your question, the arrangements that are currently in place are not impacted by anything that we can foresee. We would expect everything to continue.

Senator Ian Gorst: That is right. These areas become very technical very quickly when it comes to passporting. We have explained where we are. If we take AIFMD as an example, we have met the technical requirements that ESMA has placed in order to issue a passport. In order to get a passport, one needs a member state of reference, so while the UK is leaving, the requirement for member state of reference and the issuing of the passport could easily acquire a political overlay. We will have to navigate through that. At the end of the two years, throughout which we will have been working closely with the United Kingdom, we will have common cause with the United Kingdom there.

I will just touch on another part of your question. We in Jersey—I know that Guernsey has as well—have done some independent work to try to map the value of our economies not only to that of the United Kingdom, which we refreshed again this year, but also to the EU. That work indicated that we were a conduit of something like £188 billion into Europe. That is not part of the half-trillion that I spoke about coming into London. That £188 billion is equivalent to about 88,000 jobs, and ties into the question about the mapping work about the future of third-country status and equivalence.

Lord Woolmer of Leeds: Am I right that, as and when the UK leaves the EU, your third-country equivalence ability to market into Europe will remain the position, and that that is not part of the negotiation? You have that in your own right?

Senator Ian Gorst: We are third countries today, and we were third countries before the UK voted to leave the EU. That third-country aspect where we have delivered and developed equivalence will remain.

Lord Woolmer of Leeds: So in principle it is possible that you will have access to the EU markets but London might not?

Senator Ian Gorst: It would not be right for us to speculate, but the great repeal Bill will mean that, once it is agreed, the UK will have equivalence because it will have been equivalent as a member state. It will leave the EU and become a third country. At that point it will have equivalence.

Lord Woolmer of Leeds: But the UK will have to apply for equivalence.

Senator Ian Gorst: It will have to apply for passporting but not for equivalence, because it will be able to show itself to be equivalent because it has been equivalent when it was a member state.

Hon Howard Quayle: We share the concerns of the Channel Islands, but we are not as exposed to financial services as they are. We tend to do more worldwide investments. Obviously the UK is our main trading partner. We have diversified into e-business and manufacturing, which means we have reduced our exposure in that market. Our financial services are either in the City of London or, on the whole, worldwide rather than European.

The Chairman: I think this is the moment when the Committee passes seamlessly from financial passports to personal passports.

Q10 **Lord Jay of Ewelme:** I have one tiny question. I think Mr St Pier said that as far as the WTO was concerned, Guernsey and Jersey were not members in their own right and that the UK's membership could be extended by an Act of Parliament. What is the position of the Isle of Man?

Hon Howard Quayle: The UK's membership of the WTO was extended to cover the Isle of Man in 1997.

Lord Jay of Ewelme: I see. I had not realised.

Hon Howard Quayle: Give or take a year or so.

Lord Jay of Ewelme: Mr Quayle has partly answered the question that I was going to ask about the common travel area. You talked about the effect and possible implications. Would the Guernsey and Jersey Chief Ministers say whether you see any implications for the common travel area in the event of Brexit? We did a report on Ireland in which we concluded that it would clearly be in the interests of the UK and Ireland if the common travel area continued. I wondered if you had given any thought to that.

Senator Ian Gorst: We absolutely support that view. The common travel area is extremely important to us. We are a community of whom roughly half were born on the island and half have come to the island, and the vast majority have British origin. So we have not only economic and constitutional but cultural links too. We would want to ensure that there is no border between Jersey and the UK because we currently operate the southernmost border with the rest of Europe.

Deputy Gavin St Pier: I will build on that point. In addition to the economic and cultural family links, inevitably a significant number of our population travel to the UK for health treatment or to attend higher education and so on, both of which obviously contribute economic value to the UK. However, a fundamental point must not be forgotten: the free movement of people between the islands and the UK is a long-standing constitutional position, derived from successive royal charters. The common travel area is just a modern manifestation of how that is delivered, so for us it would become a significant constitutional issue if that free movement of people between the islands and UK did not continue. In other words, whatever replaces the CTA would need to recognise that historic constitutional relationship and those historic charters that give those rights for our people to move freely between the islands and the UK.

Lord Jay of Ewelme: Another of our recommendations was that there might be a case for consolidating the arrangements around the common travel area. If that were done, would that cause any particular difficulties for you?

The Chairman: Legally consolidated, that is. The legislation is a bit disparate, as I understand it.

Lord Jay of Ewelme: We are talking about tidying up the common travel area arrangements.

Deputy Gavin St Pier: It would depend on what that meant. On the face of it, I suppose my instant reaction without any consideration would be: provided the overriding objective is achieved.

The Chairman: And the Isle of Man, which has some direct interface with the Republic of Ireland as well on travel—are you of much the same view?

Hon Howard Quayle: Yes. Obviously our two key concerns over the whole Brexit issue are freedom of movement not only for goods but for people. This is absolutely key to us as we seek to grow our population. We too send people into the north-west of the UK—for health services, for example. We spend a considerable amount in the north-west region.

Lord Selkirk of Douglas: Would you say a bit more about tourism? I understand that there is quite a lot of tourism to the Channel Islands. Do you foresee continuity in the provision of tourism or changes?

Deputy Gavin St Pier: Certainly tourism is a significant contributor to all three Crown Dependencies represented here today, in differing proportions. It is also probably fair to say that it is less significant than it once was but that none the less it remains a significant economic sector. Most tourists originate from the UK, which goes back to the previous point about the need to maintain that free movement between the UK and our respective jurisdictions. A number of tourists come directly from the EU, particularly into the Channel Islands and, I guess, from Ireland into the Isle of Man. Again, I guess that would be affected by the other arrangements that are to be negotiated by the UK. For Guernsey— I will leave the Chief Minister for Jersey to speak for Jersey—that is a very small proportion of our overall tourism sector. By far the most important sector to preserve would be UK-origin tourists.

Q11 **Baroness Prashar:** We published a report last week on police co-operation and the question of security for citizens. Obviously that co-operation is very important. Is that likely to have any implications for you after Brexit? Are you concerned about the area of security and safety?

Senator Ian Gorst: No. We keep coming back to this point: the most important relationship—historically, constitutionally and in relation to trade and a whole host of issues—is with the United Kingdom, and maintaining that relationship as it is today is the most important aspect for us. Although we have our own police force and judiciary, our police force liaises with the UK and our regulators liaise with the National Crime Agency. It is those relationships that are the most fundamentally important, and they also help with our security.

Deputy Gavin St Pier: I do not think I have anything to add to that.

Hon Howard Quayle: I also concur.

The Chairman: Baroness Prashar, you have another question?

Baroness Prashar: Yes. How do you think the UK Government can best safeguard your interests in the negotiations?

Deputy Gavin St Pier: This goes back to the beginning of this session; it is about maintaining the very open lines of communication at all levels: official, political and across government. The biggest risk for us is that our interests are inadvertently overlooked in a particular area under consideration or negotiation. The biggest challenge through this process is ensuring that our voice and our interests are constantly considered and thought about as the UK presents its own position.

Baroness Prashar: Are there any particular areas of concern that would be priorities for you in the negotiations?

Senator Ian Gorst: Perhaps I could go back to the first element of your question, if I may. The process of engagement and consultation with the Crown Dependencies that has now been put in place by the British Government means that the historical concern—that our concerns were not being heard and brought into the negotiation—is more baseless than it was.

The most important thing, as I have tried to say throughout this session, is maintaining our current relationship with the United Kingdom and the freedoms that we enjoy across the range of issues that we have discussed.

Hon Howard Quayle: I add wholeheartedly to that: working with the United Kingdom is obviously key. You have asked the perfect question. If we can, we wish to maintain as much as possible of the current relationship on the freedom of movement of goods and of people—which especially is absolutely paramount. It is not just the Crown Dependencies; the United Kingdom's economy is reliant on having a skilled workforce coming in to maintain it and help it grow. We are in exactly the same position, especially on the Isle of Man where we have an unemployment rate of 1.2%, which is dangerously low. We really need to grow our 20 to 40 year-old skilled workforce. Losing access to, or having considerable hurdles to attract, a workforce from the European Union as well as the UK would be of significant concern for our Island.

The Chairman: Thank you. That is a very useful insight. To conclude on this point, if you, as Chief Ministers of your respective Dependencies, or equally one or your officials, stumbled on something which gave rise to concern, would you feel confident that you could pick up the phone and have a conversation with a representative of Her Majesty's Government here which would, at least, enable them to be quite clear that something had cropped up? It would be helpful if you could give us that assurance.

Senator Ian Gorst: I personally would be absolutely confident. I say that because that is the situation in which we find ourselves today. If an issue has arisen that needs action or consideration … that is already the case. As I said earlier, all three Governments have put a lot of resource and effort into building a positive relationship with the United Kingdom Government over the past five to 10 years, with the creation of various offices and the provision of extra resources. We have excellent relationships with the Ministry of Justice and we have seen, through the coalition and the new Government, that that is absolutely the case. I am confident that will continue into the future as well.

The Chairman: And is that the collective view of you all?

Hon Howard Quayle: I cannot but agree. It is surprising that we are all agreeing on an awful lot of issues here, including the sincerity of the likes of Sir Oliver Heald, who represents the Crown Dependencies—I have already met him and he is coming over to the island—and Robin Walker from DExEU. There is also the all-party parliamentary group which takes a real interest in the Isle of Man and, I am sure, in Jersey and Guernsey too. They have been friends, they are still friends, and we look forward to working well with all of them. We do feel exceedingly well looked after at the moment: long may it continue.

Deputy Gavin St Pier: My answer can be equally brief. It is a yes. The however to that comment would be to never underestimate the process of education that is constantly required, at all sorts of levels, for officials and others to understand that our jurisdictions are not part of the United Kingdom and that, as Crown Dependencies, they have a unique status. Importantly, what comes with that is the United Kingdom's responsibility to represent our interests, even where they may not be the same as the

United Kingdom's. That is a constant challenge but we certainly have the channels that enable us to ensure that our voice is heard.

Q12 **The Chairman:** As we draw towards the end of this session, do colleagues have any other questions? If not, do our three Chief Ministers have any comments they want to make in conclusion on matters we have not raised or messages they want to leave with us?

Senator Ian Gorst: If I may, we have touched, as we might have expected, on things like immigration, financial services, the economy, the travel area and third country status. However, our economies are broad and our relationship with Europe is broad and deep. Things like air and shipping links are important to us; as I said at the start, so are transport and communications, telecoms and data protection. In Jersey and Guernsey we buy all our electricity from EDF in France. Energy, and its supply into the future, is important.

While we were not party to the referendum—which was right for all the reasons we outlined in today's hearing—there are areas we want the British Government to be mindful of through this negotiation, as do the devolved Administrations and overseas territories. While we know that Brexit is happening, we are committed to working with the British Government so that, so far as it is reliant on us, a success can be made of it.

Deputy Gavin St Pier: I absolutely concur with the Chief Minister of Jersey. My only other very small point—which may become more significant in due course—is that if any free trade agreements are negotiated by the United Kingdom in future, as it repatriates that right, it will need to ensure that they are capable of extension to the Crown Dependencies.

My final comment ends where I began, which is to thank you very much for the opportunity to give evidence and for your interest in our small but historically significant jurisdictions.

Hon Howard Quayle: I, too, reiterate our thanks for you taking an interest in the Crown Dependencies. We are obviously a small number of people compared to the wider population, so your taking the time to call us in, listen to our views and take them on board is greatly appreciated. Our concerns are very similar: freedom of movement of people and of goods. From the point of view of the Isle of Man, our customs and excise agreement is important. It will continue after the outcome of Brexit but we, too, want to work with the United Kingdom to make Brexit a success for all of our jurisdictions.

The Chairman: Thank you. In concluding the public session I thank you, the three Chief Ministers, for coming, for the way you have answered our questions and for the—to some extent—positive messages which you have sent. We will reflect on them. You have been kind enough to thank us for taking an interest. I can assure you that Parliament does think this is an important area. We will maintain a continuing interest through times which are bound to be testing but which I hope will be not unsuccessful in the outcome.

All that remains is to remind you that we will send you a transcript. If there are any afterthoughts, anything you want to add or any information you want to send us, you are very welcome to do so. In thanking you, we also extend to you the compliments of the season.