

## “INVESTMENT IN THE EU: THE CONTRIBUTION OF THE CHANNEL ISLANDS”

Speech by Deputy Gavin St Pier, Chief Minister of Guernsey,

at the Channel Islands/Invest Week reception, 29 November 2016

Your Excellencies, ladies and gentlemen,

It is a great pleasure to be with you this evening. Thank you very much for coming. This is my first visit to Brussels since I was elected as Chief Minister of Guernsey in May. Today I find myself in a unique position, I am speaking on behalf of my own island of Guernsey, as well also my fellow Channel Islanders in Jersey. Today is the fourth joint visit to Brussels of the Guernsey and Jersey Chief Ministers in less than 3 years, and the second this year – we increasingly work very closely in our off island engagements. This shows the importance we attach to our relationship with the European Union and our commitment to underpinning that relationship with active political engagement.

### Invest Week

We are delighted to be hosting this reception in association with the inaugural Invest Week. This week provides an important platform for dialogue between policymakers and representatives from the investment industry. We hope our reception tonight allows some of the discussions already held in the first two days of Invest Week, and the contacts already established, to be developed in an informal and, we hope, convivial setting.

Invest Week is an initiative of Invest Europe, an organisation with whom our Brussels Office, our governments, our regulators, and our industry bodies enjoy excellent relations. We congratulate Invest Europe on this initiative and express our strong support for it.

In particular, one of the objectives of this week – to promote the strength of the world’s largest economic area as an investment destination - chimes with our own objectives.

Guernsey and Jersey’s specialism is to channel investment from around the globe, into funds which are then invested into Europe. Guernsey and Jersey, taken together, had £466 billion in funds under management or administration according to Q1 2016 data. Almost half of this comes from investors outside of the EU. These funds are drawn largely into the UK and the rest of Europe, and invested in key infrastructure and businesses in support of jobs and growth.

Two new independent reports have been recently published by Capital Economics: the first on Jersey’s value to the UK economy, updating a previous study, and the second on the contribution that Jersey makes to investment and jobs in the other 27 EU Member States. Around a third of all funds administered and managed in Jersey are invested in the EU-27. They provide an estimated 4% of the total net international investment into the EU-27 and support an estimated total of 88,000 jobs in the EU-27.

In 2015 a study by KPMG was published in relation to Guernsey’s fund sector, which found the Guernsey fund industry alone acts as a conduit for £25 billion of inwards investment into the UK and a total of £50 billion into the EU.

## Capital Markets Union

We have engaged actively with the Commission's Capital Markets Union initiative launched in 2015. We responded to various Commission consultations and the call for evidence. We also took part in the workshop earlier this year, as part of the review of the EU Venture Capital Regulation (EUVECA).

CMU was launched with one of its objectives to make the EU attractive to international investors, an objective we strongly supported. To meet Europe's needs in the area of infrastructure investment, The Commission has estimated that between EUR 1.5 trillion to EUR 2 trillion is required to meet the policy goals of the Europe 2020 Strategy for smart, sustainable and inclusive growth. Global capital markets have a valuable role to play in making Europe competitive.

In the Channel Islands' January 2016 submission to the Commission's call for evidence, it was estimated that removal of additional fees and administrative barriers, together with the introduction of the passport for equivalent third countries, could result in an additional global capital flows into EU investments of between €12.5 billion and €25 billion.

However, as the initiative has moved from a policy debate to concrete proposals, we were disappointed that this international dimension has been largely absent. Indeed, it was completely absent from the Commission's Communication published on 23 November. Having concentrated on addressing the internal barriers to cross border investment, we believe the time is now right, to address some of the barriers to international investment as CMU moves towards its mid-term review in 2017.

We understand the EU's need to take a cautious approach and to have robust equivalence assessments, to ensure that market access is granted to only well-regulated and well-supervised third country jurisdictions. But if this requirement is met, we believe it is in Europe's interest, as well as ours, to retain a strong third country element in Capital Markets Union. Indeed, at this time of heightened global uncertainty, we believe it is even more important that the EU can give a message to international investors that it is open for business.

## AIFMD passport

An important concrete signal of being open for business as usual, will be the passport for countries assessed as being equivalent under the Alternative Investment Fund Managers Directive (AIFMD). We hope that the delay announced last month to the Commission's decision on the AIFMD passport will be short-lived. Following a thorough assessment, ESMA has two years in a row confirmed that there are no obstacles in place, to the extension of the third country passport to Guernsey and Jersey. The Islands are (as I have said) net contributors to the EU economy and a decision on the passport will help to safeguard that inward investment.

This decision will provide confidence to international investors. A survey conducted by the Guernsey financial services regulator (GFSC), estimated that a passport extension to the Channel Islands would lead to an increase of around 10% in funds launched into the EU; and of around 20% greater capital raised per launch. The biggest impact would be in infrastructure, with a forecast cumulative 40% increase in investment in EU infrastructure assets over five years. Now is not the time to revisit the policy regarding third country access; now is the time to strengthen

the EU economy. The Islands' fund sectors can and will play an important role. The sooner the Commission can move forward on the delegated act, the greater the benefit for the EU economy.

## Tax

Let me also say a word about tax. Our corporate tax regime is designed to provide for tax neutrality, so that we can fulfil the role I have been describing of Guernsey and Jersey as entrepôts for attracting globally mobile capital, which can then be invested in Europe. Tax neutrality means avoidance of double taxation. It does not mean double non-taxation. On the contrary, we know that the role that Guernsey and Jersey play as sources of investment into the European economy, goes hand in hand with the responsibility which we have, to assure EU Member States that we are cooperative, transparent jurisdictions, and that as a consequence we do not pose a threat to the tax base of Member States. We take this responsibility very seriously.

We have a longstanding voluntary commitment to the EU's Code of Conduct, and both islands have been found to have non-harmful tax regimes. We were among the group of "early adopters" of the new global standard of automatic exchange of information – the Common Reporting Standard. There is a strong political commitment in both islands to the international action to tackle Base Erosion and Profit Shifting (BEPS). In June both Guernsey and Jersey joined the BEPS Inclusive Framework under the auspices of the OECD. In October we signed the OECD multilateral competent authority agreement to apply country by country reporting (CBCR) for large corporations.

We watch with interest as the EU establishes a list of non-cooperative jurisdictions. Such a list should be prepared using objective criteria; it must follow prevailing international standards on tax transparency and cooperation. The criteria of the EU's own Code of Conduct on harmful tax competition do not include tax rates.

The Panama Papers and Bahamas leaks scandals put the issue of beneficial ownership in the spotlight. On this, the existing regulatory framework in Guernsey and Jersey has stringent requirements for all trust and company service providers to have accurate and up to date beneficial ownership information, accessible to tax and law enforcement authorities. In Jersey's case, this is already held in a central register, and Guernsey will have such a register in place by June next year. Both our islands have also committed to the international initiative to develop a new global standard for the automatic exchange of beneficial ownership information.

We will not just meet the commitment to ensure timely access to information by the Law Enforcement authorities, we will be at the forefront of ensuring the data we keep is accurate, underpinned by our leading position amongst only a handful jurisdictions that regulate corporate services providers. We place an onus on beneficial ownership information being verified, rather than simply relying on self-declaration, as with public registers that are currently emerging. This is a system that has been tried and tested in our islands. We ensure that our businesses know their customers.

We are pleased that all these efforts have been recognised by Commissioner Moscovici, who in January described Guernsey and Jersey publicly as cooperative jurisdictions and partners of the EU, and by the Secretary General of the OECD, Angel Gurría, who in October commended our efforts towards implementing the BEPS package, and on our "important role in advancing greater international tax cooperation and transparency".

## BREXIT

Finally, before closing, I should say something about BREXIT. Clearly the result of the UK referendum on 23 June was of great significance to Guernsey and Jersey, as it was to many others. The UK is our major trading partner and our formal relationship with the EU is through the UK's Accession Treaty. But it is important to be clear: we are not part of the UK, we had no vote in the referendum, and we are already outside the EU for most purposes. Nevertheless we have considerable "skin in the game". And we are therefore engaging actively with the UK government as it prepares its approach to the BREXIT negotiations, to ensure that our interests are taken fully into account.

As small islands, our economies are services based, with a particular focus on financial services. For services purposes, we are already outside the EU. That status as third countries is unchanged by the UK's BREXIT vote. For example, as third countries, we voluntarily apply all EU sanctions; we voluntarily adhere to the EU's Code of Conduct on Business Taxation; we have been officially assessed by the Commission as meeting EU data protection and aviation security standards; and we have obtained some limited market access on the basis of demonstrating regulatory equivalence, where this is provided for in the relevant EU legislation. All this will continue independent of UK membership.

Of course, we want the UK and the EU to succeed in the difficult negotiations that lie ahead. It is very much in Guernsey and Jersey's interests that they should. But my main message to you today, in relation to BREXIT, is one of stability and continuity as regards the Channel Islands' own relationship with the EU.

## Conclusion

In conclusion, Guernsey and Jersey remain committed to an active relationship with the EU. Our visit is further evidence of that. BREXIT is a major development, but it does not affect our relationship with the EU as third country financial centres. That relationship is, we believe, mutually beneficial and, we also believe, has plenty of potential to grow further.

We see the Capital Markets Union as an important initiative. We hope that, as CMU is developed, the EU will recognise more clearly than it has done to date, the importance of foreign investment for helping the EU to achieve its overall jobs and growth objectives. And we hope, as part of that, the value of investment channeled through cooperative, well regulated, neighbouring jurisdictions, like ours, is also recognised.

We value being able to deliver this message as part of Invest Week and again congratulate all those involved in this innovative and welcome initiative.

Thank you.