

An Island Inside or Out: A small nation in a modern world

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Good afternoon and – my name is Karen Scott, and I am delighted to be here today representing the Isle of Man Government.

I work in the Chief Secretary's Office, and I am Head of Crown and External Relations Divisions of the Isle of Man Government, and as such I am responsible for, amongst other things, immigration matters and the issuing of passports and acting as a channel for official communications between the various Departments of the Isle of Man Government and the Governments of other countries, but primarily, the United Kingdom.

The focus of my presentation today will be on the external relations issues rather than Crown matters, but as you will see, one cannot entirely be disentangled from the other.

I am not an academic, however my presentation today reads a little bit like a school timetable, so I hope that you'll bear with me, as I'd like to start off with a short geography lesson, then move onto a brief history lesson, then some economics, followed up by some politics – hopefully, using these themes, I can then illustrate for you how, the Isle of Man has used its constitutional relationship with the United Kingdom – and through that relationship, with the EU and the rest of the world – to carve out for itself a niche in today's world in which it has managed to be prosperous and dynamic, and where its people and businesses can flourish.

So, firstly, the geography lesson - the Isle of Man is a relatively small island situated in the centre of the Irish Sea, 33 miles long and some 12 miles across its widest point; an area of 227 square miles. The population is currently 80,000, which translates into a relatively low population density with around 40% of the island uninhabited.

The majority of towns and villages are situated at the mouths of rivers, around the coast – as you would expect – with the much of the island's land devoted to mixed farming, forestry and wild moor-land and rough grazing. The majority of the Island's population are situated in and around the capital, Douglas, on the East coast.

As with any peripheral, remote or island region, the story of the Isle of Man's economic history has been one of struggling to make the best of scarce or limited resources; of high import costs, few natural resources, and emigration of the young and talented, and immigration of the old and economically inactive - but the Isle of Man has always had one thing which has been to its advantage – it's constitutional position.

What I hope to do today is to give you a flavour of the Island's political and economic development, and in so doing, show how its political history – focussing on its relationship with the British Crown – has meant that it has been able to put itself ahead of other regions or islands with a similar geography, but a very different political situation, in order to become a modern and successful island.

Now for the history; the Isle of Man has passed through a number of hands over its long history, it is after all located in a very strategic position. The earliest influences were Celtic and indeed a Celtic language, Manx Gaelic, still survives on the Island and has seen something of a resurgence in recent years. But it is to the Norse, the Vikings, who arrived in the 9th century, that the Island owes many of its place names and, most importantly, our parliament, Tynwald; the oldest continuous parliament in the world.

The Isle of Man was once the centre of a great kingdom that stretched through the Irish Sea and up through the Hebrides; and indeed eventually it passed first to the Scottish Crown and eventually to the English. It was given to a great feudal family, the Stanleys and passed to their descendants – and whilst the Island continued to hold its Tynwald – it had little independent power and was ruled directly by the Stanleys or their agents.

When the Island returned to the ownership of the British Crown, a Governor was appointed to administer British rule and indeed to this day the monarch appoints a Lieutenant Governor to be their representative in the Isle of Man. Their powers however have significantly reduced as we shall see.

The Queen is the Head of State and is referred to as the 'Lord of Mann'; Manx people have British nationality, hold British passports and have access to British consular services abroad. But the Isle of Man is not a part of the United Kingdom, which is a political union. There are no Manx representatives in the UK parliament, because we have our own parliament and our own Chief Minister and Government.

All parliamentary Acts of Tynwald require Royal Assent, which is for the most part devolved to the Lieutenant Governor. I will talk about the process in a bit more detail in a few minutes, when I look at the political relationship with the UK. The last century has seen a gradual reduction in the direct powers of the Lieutenant Governor, who no longer sits with the upper Chamber (Legislative Council) or presides over parliament. It is not a purely ceremonial role though, even though that constitutes a significant part of the responsibilities. The Governor still for example exercises functions relating to immigration, passports and nationality though some aspects of this too are changing.

Increased financial independence from the UK has gone hand in hand with and sometimes has been determined by, political reform. To understand those drivers properly it would be useful to consider the economic situation of the Isle of Man both past and present.

Unsurprisingly, given its location and geography; an extensive coastline, pasture land and high hills, the traditional industries of the Isle of Man were fishing and farming, with the later addition of mining activity for tin and lead. Trade has also always been vitally important and indeed it was the Island's inventive approach to UK trade

tariffs that unfortunately led to the Island being more or less forcibly re-purchased from private hands back to the Crown in 1765.

The advent of mass tourism from Victorian times onward helped to reverse a period of economic decline with hordes of people arriving, mainly from the north of England, for a holiday abroad. Indeed the Isle of Man is still covered with some of the finest working Victorian industrial archaeology to be found anywhere. It could have been a very serious situation therefore when the arrival of the cheap package holiday began to seriously erode that vital tourist trade that had been the economic mainstay of the Island.

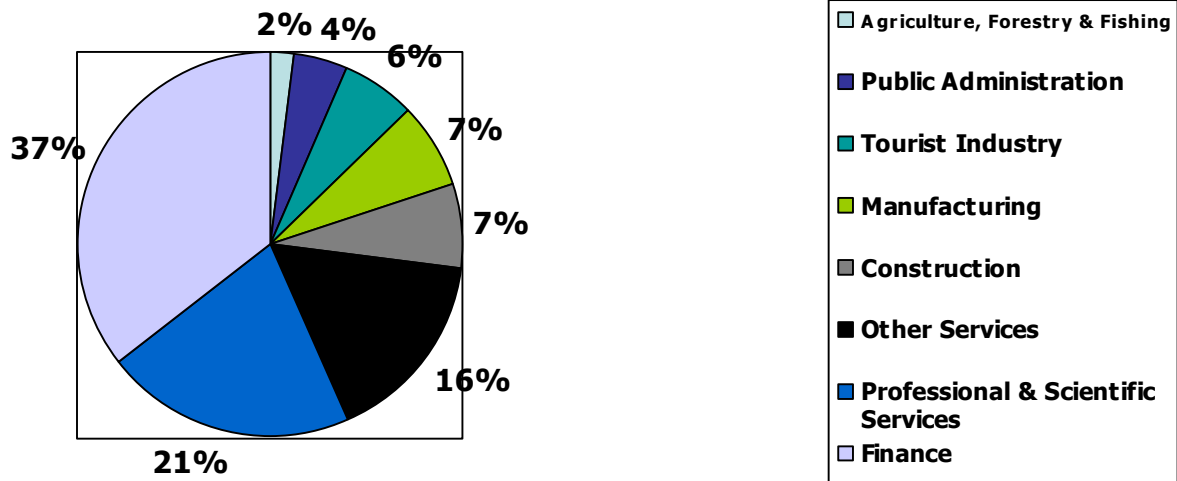
However at about the same time the Isle of Man had achieved a separation of Manx revenue from the UK, which I will talk about shortly. Consequently there was a freedom to review tax regimes and public spending which allowed the Manx Government to take steps to boost the economy and in particular to lay the foundations for the financial services industry.

Furthermore the Customs and Excise Agreement of 1979 enabled HM Customs and IOM Customs to share VAT/Excise revenue on a per capita basis – boosting government revenues; consequently this means that income tax and corporation tax can be kept at a reduced level. If we leap forward around 30 years the Island has changed substantially from that fishing, farming and tourism-led economy of previous centuries.

In 1994 the Isle of Man GDP was 72% that of the UK; by 2001 it had reached 98% and today it stands at around 113% of the UK. This considerable economic growth owes much to the development of financial services and related industries; insurance business, banking, legal and accountancy services in particular.

As part of its strategy the Isle of Man has continued to try and diversify its economic base, using the flexibility and freedom of its financial framework to encourage growth in a range of sectors; so for example the Island now has one of the top shipping registers in the world and has just launched an aircraft register, there is also a film industry and a growing space technology industry. Nevertheless it is the VAT sharing agreement with the UK that has previously contributed up to around half of the Island's income per annum which has been fundamental in helping to modernise the infrastructure – for example a new hospital, prison, water treatment works and a new energy from waste plant and power station, about which, more later.

And this model gives an approximate visual breakdown of the different sector share of the Manx economy during 2005/06.



So to politics and in particular two crucial agreements which have perhaps helped to shape the Isle of Man as this modern, small nation with a very clear sense of its own identity. The first of these, which has already been referred to, was the **Separation of Manx revenues** from those of the UK: In 1956 the Isle of Man Contribution Act (an Act of Tynwald) specified that the Island should pay the UK an annual contribution towards defence and other common services, amounting to 5% of the net receipts from the Common Purse. That contribution continues but was cut to 2.5% in 1978 and in 1994 a new agreement with the UK was reached whereby a payment of £1,750,000 would be made, to be increased in line with changes in GDP.

In 1957 Tynwald also agreed that Manx Customs duties would generally be kept on the same level as Britain. These understandings made possible the Isle of Man Act 1958 (of UK Parliament) which, together with Acts of Tynwald, effectively removed the British Treasury's control of the Island's finances and empowered Tynwald (at that time with the Governor's approval), to control revenue and expenditure, which as we have seen, was vital for stimulating economic growth.

Politically there have been a number of important Acts and reports which have served to highlight the Isle of Man's unique status. Of particular interest however is the **Bevin Memorandum of 1950**: Prior to October 1950 for the purposes of any international treaties, agreements and conventions the United Kingdom Government considered the Crown Dependencies to be a part of the "metropolitan territory" of the UK, and therefore any UK ratification, acceptance or approval of such international instruments automatically applied to the Islands. However, on 16th October 1950 Ernest Bevin issued **Foreign Office** circular no. 118. usually known as the "Bevin Memorandum" which basically says that, from that point forward, no UK ratification of an international treaty will be considered as applying to the Crown Dependencies unless they are expressly included.

One of the most important results of this can be seen when the UK joined the EEC in 1972; the Isle of Man chose not to join; but neither as British citizens should we have been disadvantaged by UK membership. In fact, the Isle of Man is not a part of the EU but neither is it wholly divorced from it. Under a special arrangement called 'Protocol 3' the Isle of Man is part of the customs territory of the Union and therefore there is free movement of industrial and agricultural goods. The relationship between

the Isle of Man and the EU is complex and not easily covered in a few minutes; nevertheless it is again our particular constitutional position that allows us to work productively with the EU whilst not being subject to every piece of legislation that applies to member states.

I hope that my attempts to describe the Isle of Man's constitutional position are not making it sound overly complicated. Let me return to the relationship with the UK.

The Isle of Man is a Crown Dependency, not a sovereign state; the UK is responsible for the Island internationally and has an overall responsibility for internal 'good government'. It would however take an extremely serious issue for the UK to seek to intervene in the internal democratically elected government of the Island and as issues both big and small are subject to regular dialogue between Manx and UK civil servants the risk of any such cataclysmic event is much reduced.

Routine dialogue takes place between the Ministry of Justice (the DCA as was) which is responsible for the Crown Dependencies and acts as a conduit to other Departments, and my Division, External Relations. Manx civil servants have established relationships with UK colleagues in all Government departments and generally work well together to resolve issues.

We receive draft UK Bills for comment, to see how, if at all, they might affect us and if we wish to have a clause included which would permit the legislation to be extended to the Isle of Man at a later date. There are established protocols and ways of working and the Ministry of Justice in particular has a good understanding of the needs and the aspirations of the Island.

There is no written agreement which defines the constitutional relationship between the UK and the Isle of Man though references to the relationship can be found in a number of Parliamentary reports. This lack of definition has allowed the relationship to change and evolve over time without challenging any definitive boundaries.

Economically the Isle of Man is involved in sectors which are global – finance, shipping, space etc. which are not constrained by geographic location; it is therefore logical that, going forward, the Isle of Man is seeking areas in which it can represent itself internationally. Progress has been made in this area with the recent signing of a framework with the UK for developing the Isle of Man's international identity; this does a number of things including confirming that the UK will not act internationally on behalf of the Isle of Man without prior consultation; it recognises that the Island has an international identity which is different from that of the UK and that the role of the UK is to support, not interfere with the development of that identity.

The framework confirms the status of the Isle of Man as a responsible, stable and mature democracy and identifies that international identity is developed effectively through meeting international standards and obligations. Interestingly the Isle of Man has now signed in its own right a number of bi-lateral Tax Information Exchange Agreements underlining a commitment to international financial standards as set out by the OECD and FATF.

So the Isle of Man's constitutional, political and economic development continues; inward investment is seen as key and with no monies from the EU or other sources it is a legal requirement for the Island to balance its budget or to have a surplus.

There has been significant spending on infrastructure, for example - and, to rather belatedly pick up the theme of the conference, to secure security of energy supply through diversification and building an 'energy from waste plant' and a power station run by gas turbines. In fact the Government, through the Manx Electricity Authority, controls the import of gas, the power stations, and the electricity supply networks; the complete end to end process. It might be seen as highly unusual but it provides security and underlines the independently minded and self-sufficient approach of the Island over many years.

Nevertheless the Isle of Man seeks to work within international obligations and has chosen for example to have the Kyoto agreement extended and to voluntarily meet EU standards for bathing water.

To conclude this presentation, I hope that I have as promised been able to provide you with some insights into how a small Island that is not fully part of any large political or economic bloc, has been able to flourish in today's global environment and how the constitutional position has, certainly in recent times, enabled rather than stifled that development. There will continue to be challenges ahead but the established autonomy, stability and maturity of the Isle of Man holds out a degree of confidence that those challenges can be dealt with successfully.

Thank you.