Doing Business in Jersey

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Small island spreads its wings

Crown dependency plans to strengthen economy through diversification, writes *James Pickford*

Taking off: the 'Jersey Girl' sculpture at the heart of the island's financial hub in Castle Street, St Helier Alamy

Along St Helier's Esplanade, the brass plaques read like a directory of international finance. Global banks, trust companies and professional services groups have been finding a foothold in Jersey's prime financial district ever since this 45 sq mile island began building its reputation as an offshore centre in the 1960s.

The influx of international investment has brought considerable wealth – with well-funded public services and high standards of living – but also concentrated economic activity in financial services, and, in particular, on the cornerstones of banking and wealth management.

Now its leaders are taking steps to expand beyond their core territory with a concerted effort to strengthen the economy through diversification.

Digital and technology services, mining and intellectual property are some of the sectors seen as offering the highest potential for growth. Finance, too, is part of the plan, with priorities for expanding the industry's footprint in the Gulf, Asia and Africa.

Philip Ozouf, treasury and resources minister, says: "We are a centre that needs to be at the cutting edge of innovation. As a small economy you have a disadvantage because of your size but you need to play to your strengths . . . you should be able to move quicker than larger countries."

The financial crisis brought significant challenges. Banking profits – which account for 80 per cent of those generated by the financial services industry – roughly halved after 2008, when interest rate margins fell and head offices sought savings at offshore divisions. Painful public spending cuts followed and jobs were lost.

Since 2011 the banking decline has flattened, and signs of recovery in the UK, Jersey's biggest trading partner, give some islanders cause to believe a fresh phase of growth is around the corner.

Geoff Cook, chief executive of Jersey Finance, which represents the island's finance industry, says the crisis has not made a "structural change" in the ability of the industry to make profits. The island's asset base remains healthy, with £1.2tn in its custody. "My prediction is it will come bounding back once interest rates normalise," he says. "We think 2 per cent base rates will largely restore the profit model."

His organisation has spent the past six years expanding Jersey's presence in emerging markets, opening offices in Hong Kong, Delhi, Mumbai and Abu Dhabi. Shanghai will join the roster in 2014. "We've also ramped up our activity in Russia," Mr Cook says, with visits every three to four months.

Attracting new business to the island is one of the motives behind a prospective waterfront development, the Jersey International Finance Centre. With six standalone buildings amounting to half a million square feet of office space, the zone will offer the kind of flexible, high quality premises familiar to global banks in cities like London and Singapore.

Lee Henry, managing director of the States of Jersey Development Company, owner of the site, says: "We have 2.8m sq ft of office space in Jersey but very little categorised as Grade A [prime]. We're hopeful that by creating this dedicated district for finance we will attract a flow of new tenants."

The island will reinforce the importance of its political and economic relationship with Britain next year when it opens a representative office in Westminster. Along with Guernsey and the Isle of Man, its fellow Crown Dependencies, Jersey was pressed by the Treasury to sign up to measures on the automatic exchange of tax information following a similar agreement with the US. The episode came amid hardening international attitudes towards offshore centres, as larger countries sought to shore up their revenues by clamping down on tax avoidance. As part of its response, Jersey points to a report it commissioned from Capital Economics, a UK consultancy, which calculated that half of the assets held in Jersey were funnelled into British investments,

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James Pickford talks to Alan Maclean, economic development chief

Tough choices in crisis paved way for new opportunities

Economy Deep-rooted links with the City of London could put financial industry on a rising tide as the UK recovers, writes *James Pickford*

Open season: entrepreneurs are attracted by the Jersey lifestyle

What offshore financial centres lack in size, they try to make up for in agility. Jersey is no exception. Its history shows a willingness to move on from industries once their commercial logic fades, and exploit emerging opportunities more nimbly than larger, lumbering neighbours.

With an economy dominated by financial services, Jersey's leaders are looking for new avenues both within and outside the industry. These include opening up new markets in Asia and Africa, as well as forays into digital services, intellectual property and playing host to mining and energy companies.

Ian Gorst, chief minister, says the island's strategy of diversification is about "planning for the future and wondering what the next opportunity might be". He adds that the government was "far from pessimistic" about financial services.

The industry appears to have recovered some of its poise following pressures imposed by the financial crisis. Jersey's gross value added (GVA), a measure of overall economic activity, stood at £3.8bn in 2011 – a 1 per cent fall from 2010. While this was the fourth consecutive year of decline, it fell significantly less than in the previous three years, largely because of better figures from finance, which accounts for 41 per cent of economic activity on the island.

The dominance of financial services, and within that, banking and wealth management, means economic cycles have played a less prominent role than Bank of England base rates. Net interest income, the bread and butter of banking before the crisis, halved after 2008.

While banks have lost around 1,000 jobs in the past six years, employment in financial services remains high at around 12,000. Despite this, productivity in the sector has not recovered to pre-crisis levels, with GVA per full-time employee declining by almost two-fifths between 2000 and 2011, from £160,000 to £100,000.

Some believe finance's deep-rooted connections with the UK economy – through the channelling of Jersey funds to the City of London – give reason for optimism as Britain's outlook improves.

Philip Ozouf, treasury and resources minister, says: "We think we are going to be on a beneficial rising tide as the UK recovers and we think we have a role in helping the UK to some small extent in that recovery."

The broader island economy presents a mixed picture. Unemployment reached record highs this year, with 1,860 actively seeking work at the end of July. The decision by the UK Treasury in 2012 to close down a VAT loophole on low-value goods sold by mail order to the UK, such as CDs and greetings cards, added about 800 to the jobless figures after groups that grew up around the trade moved out or closed.

Yet by international standards the jobless rate remains low, at 4.7 per cent by the International Labour Organisation standard, compared with 7.7 per cent in the UK.

The island's public finances are in better shape than might be expected for a finance-heavy economy, with no public debt and a balanced budget. Mr Ozouf said long-term planning – and a willingness to make tough choices – had been instrumental in this.

"We've restructured spending. We have avoided deficits and invested fiscal stimulus money to keep the economy going. We have not shied from taking difficult decisions," he says.

Population growth remains a politically charged issue. Numbers have crept steadily up over the past decade – through immigration and a higher number of births – and stand at 99,000. Like many western communities, Jersey is subject to the healthcare and social care pressures of an ageing population, with the number of over-65s expected to double by 2040.

> 'We have avoided deficits and invested money to keep the economy going'

Mr Ozouf says he is confident the island can ride out the demographic shift, as the island's leaders had been putting in place measures to address the change for the past 15 years. "We have a pay-as-you-go social security system that ministers in the UK could only dream of. We have a pension rate more generous than the UK, which rises every year by average earnings."

One type of immigrant that Jersey welcomes with open arms is the wealthy entrepreneur. Its efforts to build new businesses beyond the world of high finance include measures to attract more such individuals. The longstanding absence of capital gains tax and inheritance tax are part of this appeal; recently the island also simplified the tax requirements for so-called "high-value residents" to qualify for permission to purchase or rent a house on the island. They must generate a minimum of £625,000 in annual income before being considered. This is taxed at 20 per cent – equivalent to £125,000 – with any income above that taxed at 1 per cent.

The first port of call for wealthy individuals considering a move to the island is the office of Kevin Lemasney, director of high value residency for Locate Jersey. He says there has been a shift among new arrivals away from those entering retirement or ex-City types to younger business people and entrepreneurs seeking a better quality of life.

Mr Lemasney says: "Why do they come? As in most cases, it's the sum of the parts. Our climate is nice, the education system is very good and they have access to all the professional services they need."

Jersey has welcomed fewer than 10 such people annually in recent years – a decline from the double-digit rates of before the crisis. This may make Lemasney's target of 15 a year ambitious but he believes, if it is achieved, it will not be because of tax, but because of Jersey's more rounded appeal. "These people could go to any of 10 to 15 offshore jurisdictions. They could go to Monte Carlo and pay no tax. What we offer here is a lifestyle."

Rule changes set stiff agenda

Regulation

Compliance implies benefits and costs, says *Brian Groom*

There is no rest for an island intent on convincing other countries that its financial regulation is among the world's tightest. After more than 15 years of rapid developments, Jersey faces a new wave of regulatory changes from jurisdictions including the UK, EU and US.

All three Crown Dependencies – Jersey, Guernsey and the Isle of Man – are negotiating an automatic exchange of information deal with HM Revenue & Customs under which details of potentially taxable income earned by British taxpayers with accounts on the island will be supplied to HMRC. But the move will raise the costs of compliance.

"There are voices that say 'Jersey has been more co-operative than most, if not than any, over the last several years, but where's the dividend?'" says John Harris, director-general of the Jersey Financial Services Commission, the regulator.

Sir Philip Bailhache, assistant chief minister, says: "I don't think we can have any objection to greater regulation provided that the regulation is applied fairly."

Jersey set the pace in regulation when it created the independent regulator in 1998, made tax evasion a criminal offence as part of anti-money laundering legislation in 1999 and introduced regulation of its trust and corporate services sector in 2001, putting it on a par with banks and investment businesses.

The latter was a tough and groundbreaking move that led to several weaker trusts either withdrawing applications or having licences removed. It has paid dividends, says Helen Hatton, a former regulator who runs Sator Regulatory Consulting. The trust sector, which brings clients to other parts of the industry, has been winning more sophisticated business.

It is no longer enough for Jersey to point to the quality of its regulation, however. Since the financial crisis onshore jurisdictions, such as France, have sought to shift attention from their problems by attacking offshore centres.

Jersey has escaped some of this. Unlike Ireland, Luxembourg and the Netherlands, it does not attract multinationals seeking to minimise corporate tax bills because among other things it does not have the necessary range of double taxation agreements.

It is well ahead of the game on the push within the G8 group of developed nations for registers of the beneficial owners of companies. Declaration of beneficial ownership has been required for years.

"It is not a public register but it is available to assist law enforcement and tax authorities if they want information on a Jersey company," says Colin Powell, States of Jersey adviser on international affairs.

A harder issue is "aggressive tax avoidance", exemplified by the outcry in the UK over comedian Jimmy Carr's use of the K2 scheme, which transferred earnings into a Jersey-based trust, which lent investors back the money. As the loan could technically be recalled, it was not subject to income tax.

That scheme was devised and promoted in the UK but Jersey's reputation was hit.

Ministers have made clear that the island does not want such business, though where schemes are legal it is hard to eliminate them. A sound business practice committee has been formed.

Moral issues aside, Jersey has had to cope with the post-crisis wave of financial regulations from the Basel III capital regime for banks to the EU's Alternative Investment Fund Managers Directive and the UK's planned ringfence of retail and investment banking. The expectation is that it will be available to Jersey branches, though not all may want to be inside it.

Mr Harris says: "If economic conditions do improve, maybe the frenetic pace of activity on re-regulating the world will subside a little and a bit more reflection will be possible on what these measures actually do."

Leaders feel under pressure to reform system of government

Politics

Change has come and politicians welcome it, writes *James Pickford*

For an island that prides itself on the stability and longevity of its institutions, the past decade stands out as a period of considerable upheaval in Jersey politics.

For 800 years, the island has had autonomy from the United Kingdom, maintaining its own system of government, collecting its own taxes and dispensing justice by its own legal system.

As a Crown Dependency, it declares allegiance to the British sovereign and relies on the UK for defence, but makes its own laws through the 51 elected members of its legislature, the States of Jersey. The island's leaders believe its constitutional independence is one of its chief attractions as an offshore financial centre.

It has nonetheless felt the pressure for reforms that would raise the efficiency and responsiveness of government, allowing it to take advantage of changing economic conditions.

In 2005, a slow-moving system of government by committee was swept away in favour of executive responsibility wielded by a chief minister and nine ministers. This has brought more rapid decision-making and improved accountability, politicians say.

The new system only goes so far. The chief minister does not have the power to appoint or dismiss ministers, nor reshuffle them.

If a minister is not performing, the chief minister must table a proposal to force a debate on the issue, with no certainty as to the outcome. In the absence of political parties, ministers are free to adopt potentially countervailing positions on matters of policy.

Sir Philip Bailhache, assistant minister for external affairs and a proponent of further reform, says: "The chief minister can only get his own way by persuasion or force of character, because he has absolutely no political weapons at his disposal . . . [The system] requires consensus, but consensus is not always possible."

This was demonstrated this year, when islanders voted in a referendum to cut the number of deputies from 51 to 42 and abolish the position of senator. Their call was rejected by deputies, who voted down the changes saying they would put voters in St Helier at a disadvantage. Ian Gorst, chief minister, said the system had its strengths. "It does take time to get political change but that also means due consideration is given before any change is rushed through. People like to consider the long-term implications of the decisions they're making."

Other reforms have come about. The tax regime was restructured in the 2000s after pressure from the EU for fiscal reform among offshore centres forced the Crown Dependencies to adopt the so-called zero-10 system – under which the general rate of tax on companies is zero and certain financial institutions pay 10 per cent.

This reduced Jersey's substantial corporate tax revenues, forcing it to introduce an unpopular 3 per cent goods and services tax (GST) – later rising to 5 per cent – to plug an £80m gap that opened up in the books. While this was not a policy that Jersey's leaders had sought out, some believe it inadvertently helped them weather the storm of the subsequent financial crisis, which further hit the tax take.

Philip Ozouf, treasury and resources minister, says the GST enabled the government to build a stabilisation fund which it spent on fiscal stimulus. It appears to have paid off.

The budget has been largely balanced, public spending cuts pushed through and the government has not needed to tap a strategic reserve that stood at £651m at the end of 2012.

"We took money out of the economy on the rising tide and deployed it with some vigour when the crisis hit," says Mr Ozouf. Jersey's relationship with Guernsey has changed in tone. Despite a history of rivalry, the two are working closer together after finding common cause on issues including foreign policy, tax and public spending.

Jersey's health, treasury and social security ministers talk monthly to their opposite numbers in Guernsey. The islands run a joint Brussels office and last year began holding joint meetings at UK party conferences. "We've really upped the pace of discussion and negotiation," says Mr Gorst.

Talk of introducing a confederated structure between the islands to formalise these links – particularly in foreign affairs – has been accelerating in recent years.

Decisions would be passed up to a joint body featuring an equal number of representatives from the islands. Where consensus could not be found, policy making would fall back to the individual island level.

Mr Gorst said he was a "strong proponent" of such thinking. "We are able to make joint decisions – we're already doing it. We just don't have the formal structure in place."

In the longer term, some believe Jersey will face another modernising trend: a move to party politics. Sir Philip said public lack of interest in politics – the recent referendum, for instance, had a turnout of just 26 per cent – was partly attributable to the lack of a firm programme among candidates.

He says: "It's a beauty parade. No candidate putting themselves forward can say 'this is what I will achieve if you elect me'.

"The best he or she can say is 'this is what I believe in'. People want more than that. They want a programme, and a government that can deliver it."

Philip Ozouf: economic vigour

Small island spreads its wings in cause of diversification

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bolstering the City of London and the UK economy. The island had a "symbiotic relationship" with the UK, it said, earning the exchequer £2bn more in tax revenues than it lost in tax avoidance or evasion.

Ian Gorst, Jersey's chief minister, comments: "We're marketing ourselves as a quality jurisdiction, wanting to be involved in the development of new standards and proving the benefit we are to the European economy."

Some believe its case was strengthened by the recent furore over transfer pricing, with global companies such as Amazon, Starbucks and Google under attack over their UK taxes – but where countries such as Luxembourg, rather than offshore jurisdictions, bore the brunt of the accusations.

David Cameron this month gave the island a vote of confidence on the tax issue when, in answer to a question in the House of Commons, the prime minister said:

"I do not think it is fair any longer to refer to any of the overseas territories or Crown Dependencies as tax havens. They have taken action to make sure that they have fair and open tax systems."

One question that remains is the impact on Jersey of UK plans to introduce a ringfence between banks' investment and retail arms.

Mr Cook says details are yet to be finalised, but he expects some banks will want to operate two models: a branch for local retail clients and a subsidiary for international business. "The principle is accepted," he says.

In its public finances, Jersey's position is relatively encouraging. It has no debt, and has pumped money into a programme of fiscal stimulus, as well as putting £20m into schemes to relieve youth unemployment. The strategic reserve, a rainy-day fund approaching £700m, is untouched even after the shakedown in global finance.

In spite of these signs of optimism, politicians and business leaders remain convinced the island needs to broaden its economic base. A drive to build up the digital sector is one of the brightest prospects.

> £41m
> **Government investment in fibre-optic cable**

As part of this initiative, the government is investing £41m in replacing the island's copper wire network with fibre-optic cable that by 2016 will give everyone access to superfast broadband speeds of 1 gigabit per second.

Hanuman Tripathi, group managing director and founder of Infrasoft, a Mumbai-based software and IT services company that set up a Jersey arm in 2005, said the initiative would be "immensely beneficial" in attracting businesses to the island by allowing them to work seamlessly with its financial and professional services industry. Jersey could become an international data hub, storing information in a secure and high-bandwidth environment. "It puts Jersey two to three years ahead of other offshore centres."

Diversification is seen as a way of making new career options available to islanders for whom financial services have been the prime route on leaving school or graduating from university.

Mr Gorst says the initiative is partly "about making sure there are appropriate and broad opportunities for members of our community to go into".

For Eliot Lincoln, managing director of Greenlight, a management consultancy, the digital initiative was "a ballsy move". He says: "It would have been very easy for them to say 'the economy's going to recover and everything will be fine'. Instead they're enabling something new – they're setting the conditions for business to flourish."

History adds a fresh dimension to attractions

Tourism Neanderthal tools and a Celtic coin hoard may draw visitors, says *James Pickford*

Looking ahead: a couple admire the view at Devil's Hole, St Mary; and, below, an exhibit from the Jersey War Tunnels Danny Evans

The last period of austerity proved a purple patch for the Jersey tourist industry. In the postwar period, thousands of impecunious British holidaymakers were drawn to the island by a combination of a gentle climate, rolling beaches, cheap travel and inexpensive, tax-free shopping.

A gradual decline in tourist numbers over subsequent decades – contrasted with the rise of financial services – has left this sector with a single-digit share of annual output.

But politicians and business leaders are showing renewed interest in tourism, identifying fresh opportunities for expansion ranging from upmarket breaks, conferencing and event tourism to the island's prehistoric and wartime heritage.

One industry observer says: "We're not the bucket and spade destination we were in the 1950s. But we do have a strong brand as a short stay destination with unrivalled airline connections to cities across the UK."

The government this year set up the Tourism Shadow Board, an independent body, to devise a new strategy for marketing Jersey as a leisure destination. John Henwood, its chairman, said the island had greatly improved the standards and range of its tourist offering in recent years, with £200m invested in the sector's infrastructure since the 1980s.

While the advent of no-frills flights to the Mediterranean undercut Jersey's mass market appeal, a new generation of customers had been drawn by the advent of Michelin-starred restaurants, boutique hotels and revamped attractions on the island.

"We now have a great product. We were slow to adapt, but we've done a lot of catching up," says Mr Henwood, former chief executive of the Channel Television Group.

Tourism staged something of a recovery for nearly a decade from 1982 – a phenomenon locals called the "*Bergerac* effect", after the BBC television series of the time. But the number of visitors then fell from 800,000 a year in the late 1980s to 333,000 in 2012. Supply has followed suit, with registered bed spaces falling by more than two-fifths since 1998.

In recent years, business and government have become adept at attracting niche groups to Jersey.

When Jersey Rugby Football Club was elevated to the Championship in the last season, the government invested in improvements to the club facilities and marketed the island to Championship cities in the UK, drawing groups of first-time visitors for away fixtures.

Alan Maclean, economic development minister, says the rugby promotion was a success but could pay even greater dividends. "We want them to come back with their families. They're relatively high-spending visitors – and not just on beer," he says.

Big draws for tourists are the Jersey War Tunnels, which portray the occupation of the Channel Islands by German troops in the second world war, and the Durrell Wildlife Conservation Trust park, which gives a home to endangered species including Sumatran orang-utans. Medieval castles and island fortifications are also high on the list.

New discoveries are sparking further ideas for development. In June 2012 the largest Celtic coin hoard, containing 70,000 silver and copper pieces, was unearthed in a field by two metal detector enthusiasts. Jonathan Carter, director of Jersey Heritage, said the find had sparked "immense" interest with worldwide coverage. Mr Carter says the heritage body had also recently acquired a military bunker built by the Germans during the war that was only recently decommissioned as a civil defence shelter.

Much was preserved from its secondary use, such as blackboards on the wall, radiation drift maps, civil defence leaflets and an emergency radio station with thousands of vinyl records. "It's frozen in the late 1970s and early 1980s at the height of the cold war," Mr Carter says.

But he is most excited by the island's Ice Age heritage. An archaeological team from a consortium of UK institutions including the British Museum, University College London and the University of Wales are working on six digs across the island, with £1m of UK research funding.

Matt Pope, an archaeologist from UCL, says just one well-known site at St Brelade had produced the largest collection of Neanderthal tools in northwest Europe – more Neanderthal artefacts than had been found in the rest of the British Isles put together. "It's an incredible archive and a rare occurrence to find that degree of preservation," he said.

Mr Carter says the heritage body is "just beginning" to explore the possibilities for turning this historical treasure trove into a tourist offering. But he added: "This is going to be a big story for Jersey in the future."

Tourism receives a high proportion of the island's budget for economic development compared with its share of output – 37 per cent of spending versus 6.2 per cent in gross value added. By comparison, spending on financial services, which accounts for 41 per cent of GVA, is 20 per cent.

But Mr Maclean says the tourist trade has a wider impact. "We recognise that sectors such as tourism mean far more to the community than their economic return. They feed into the small business sector and are important for jobs."

Some said politicians had paid a price for neglecting the tourist industry during the financial boom years. But Mr Henwood now detects a changing mood. "Politically, I believe there is the will to turn it round."

Facts
Wave power

● **Jersey** is small, but has some of the biggest tides in the world – when the tide is out the island grows by one fifth.

Mineral groups discover a rock-solid base for their operations

Mining

Companies like fiscal and legal regime, says *James Pickford*

An island of granite and shale situated 14 miles off Normandy would seem an unlikely location for mining companies in search of precious natural resources.

Yet in recent years Jersey has provided the base for an emerging mini-cluster of mining groups, with half a dozen companies choosing to locate their headquarters on the island.

Now, the authorities are courting further expansion of the sector, sending delegations to the leading mining conferences to woo potential movers.

Tim Coughlin is president and chief executive of Lydian International, an exploration company with gold-mining projects in Armenia and Georgia.

"The location is perfect for us," he says "because our operations are in the Caucasus and we're listed on the Toronto stock exchange. Here, we're right in the middle."

Other groups on the island include Randgold, Bellzone, Centamin and Consolidated Minerals.

While a low corporate tax rate does not come into play for exploration companies that generate no revenues, there are other advantages to being in Jersey.

"Exploration and development companies tend to remunerate their staff with a mix of stock options and salary," says Mr Coughlin.

"Most of our employees are happier here because there's no capital gains tax on their stock."

Lydian, which employs some 200 people worldwide, has heavyweight shareholders in the shape of the International Finance Corporation, part of the World Bank, and the European Bank of Reconstruction and Development, with holdings of 9 per cent and 7 per cent respectively.

The company is in the process of securing government permits for its Armenian gold project, estimated to contain 4.3m ounces with a net present value in 2012 of C$646m. When up and running, it will employ 450 locally.

"Responsible mining is great for these countries. It decentralises the economy and provides a lot of jobs," says Mr Coughlin.

Alan Maclean, minister for economic development, says the island did not seek out the first wave of mining companies but was now making efforts to attract the sector internationally.

"For mining, we're well located and accessible to their operations. You can see how it's ticked the boxes and, of course, once you get one or two coming it spreads through the network," he says.

Glenn Baldwin, chief executive of Bellzone, which has iron ore projects in Guinea, west Africa, says the motive for moving the headquarters from Perth, Australia, to Jersey was to be nearer its investors on Aim in London. But the island had other attractions.

"We looked at the fiscal terms and they're quite attractive for a mining company. There's a very strong legal system here, with a link back to the England and Wales legal system. It's also in the same timezone as our project in Guinea. And, given the tyranny of distance in business, if you can mitigate it, you might as well do so."

> Jersey will hope to see administrative or professional work going to locals

Mr Baldwin says that while the authorities demand a high level of detail about the business, there has been little to fear from such disclosure.

"There's an exceptionally high degree of confidentiality that's very comforting with respect to business plans and personnel."

A central question for businesses making the move to Jersey is the proportion of local workers they employ versus those they may bring from outside when skills are not available on the island.

For mining groups, this will often mean seeking work permits for metallurgists or specialised resource geologists. But for administrative or professional services, the Jersey authorities will hope to see jobs going to locals.

"There's no fixed ratio. But there is a recognition that if the skills are on the island, the authorities would prefer you to be employing those people," Mr Baldwin says.

Bellzone has six staff on the island and about 120 worldwide. For some professional services roles, mining experience can be relevant, Mr Baldwin says.

"In financial accounting it's a lot easier to fill roles within the island, as opposed to a management accountant, who needs a lot more knowledge of the mining business," he says.

Jersey's robust corporate regulatory requirements are also viewed by some as an advantage for companies ultimately eyeing a listing on an international stock exchange.

Mining exploration companies tend to accumulate shareholders at a steady rate as their projects come to fruition. Above 50 shareholders, though, regulations require a full, legally verified prospectus to be issued.

"It's almost like your training wheels," says Mr Coughlin, who went through the process for Tigris, a second Jersey-registered company he runs alongside Lydian.

Tigris has raised C$6m for its exploration work in southeast Turkey. "Lots of guys in the office got involved in doing the prospectus. We think of it as good practice," he says.

The travel connections are vital for far-flung mining groups.

As chief executive of a London-listed company, Mr Baldwin travels frequently to the UK capital to meet investors and lawyers, as well as flying to Asia and Africa on operational business.

But while the London connections are frequent, he says the international options could be better.

"If you had direct flights between here and Heathrow that would make a huge difference," says Mr Baldwin.

Eastward push seeks to give firm foundation greater depth

Financial services History, longevity and stability, plus a honed regulatory set-up, offer an attractive proposition, says *Brian Groom*

First impression: Jersey's financial groups are aiming to change the image of the island as a hub of tax evasion Alamy

Jersey came though the global financial crisis better than many offshore and onshore centres, suffering no banking collapses. Now, it is seeking to expand its international reach in growing markets such as Asia, the Middle East and Africa.

Despite the island's push to diversify into areas such as digital industries, financial services – built around banking, trusts and investment funds – remain the bedrock of its economy, employing more than 12,000 or a quarter of the workforce and accounting for 41 per cent of economic activity.

Jersey is custodian of £1.2tn of wealth, according to research by Capital Economics for Jersey Finance, the promotional body: £200bn in banks, £400bn in trusts established by private individuals, £400bn in specialist structures for businesses and institutions, and £200bn in administered or managed funds.

Geoff Cook, Jersey Finance's chief executive, says: "The things that make it stand out are its history, longevity and stability. All those things provide an accumulation of expertise. Things such as the legal system, the refinement of how we regulate, the financial architecture have been built here in the modern finance industry over the past 60 years."

He believes Jersey is stronger than most competitors. "In a world where clients are worried about the safety and security of their money, they want to associate with a centre with a sound reputation."

Revenues and profits have stabilised since 2010 and are showing signs of picking up, but Jersey cannot afford to stand still. Armed with recommendations by McKinsey, the consultancy, the island is seeking new business in China, the Middle East and Africa as well as innovation in products and services. Bank deposits, affected by low interest rates, remain a quarter below their 2007 peak, but rose recently to £155bn.

Banking employs 4,800 and accounts for three-quarters of finance industry profits. Banks have sought to increase fee income from wealth management advice to offset low deposit rates.

"The banking market is about savings and wealth and investment flows that are on-lent to the UK, primarily," says Nick Winsor, HSBC's chief executive for the Channel Islands and Isle of Man. The bank's 700 staff on the island has come down by about 10 per cent since 2008, but it is seeing some growth in revenue.

Jersey has 42 banks. Dutch-owned ABN Amro, which has been on the island since the early 1970s, is increasing revenues and remains solidly profitable, says Bilal Majid, its chief executive in Jersey. It has increased market share against its peers, partly by exploiting expertise in other parts of the group.

Coutts, the private banking arm of Royal Bank of Scotland, has decided to centre its international trust business on Jersey, which will add 15 to the bank's 120 employees on the island. But Philip Taylor, regional chairman, says growth in Jersey's financial sector is likely to remain slow: "It needs to be continuously responsive to changes in market forces."

The trust and company administration sector, which employs 3,900, has been one of the best-performing parts of the industry: average net profits were up 6 per cent in 2012 after rising by more than a quarter in 2011. Jersey has been administering trusts for international clients since at least the 1920s, ranging from people wanting to preserve family wealth to those wishing to secure assets from confiscation by unstable regimes.

Hawksford, one of the largest independent trusts, has increased its staff from 120 three years ago to more than 170. But, says Peter Murley, chief executive: "We are sharply increasing our revenue, largely by acquisition, because organic growth in the private client market has been difficult because of the economic environment."

There has been consolidation among trusts, as regulatory costs have grown. Mr Murley plans an acquisition in Singapore, foreseeing growth both there and in Hong Kong. He expects revenues to double by about 2017 and staff to reach 400.

Guernsey's funds industry, which saw asset values dip after the crisis, is also recovering: the total net asset value of funds under administration surpassed £200bn recently for the first time since March 2009.

Alternative investments, including private equity and property funds for institutional investors, have been its mainstay in recent years: some are branching out into infrastructure, green technology and credit funds, filling lending gaps left by banks. Much of the island's business is in fund administration, but it also has a growing number of private equity and hedge fund managers.

Nigel Strachan, chairman of Jersey Funds Association, says: "We are seeing some managers able to get away funds in areas where they have launched in the past and have a record." Ben Robins, head of funds at law firm Mourant Ozannes, says his team, which does legal work for fund launches, is working flat out: "We are rapidly returning to conditions similar to those in 2006-07."

Jersey has a formidable legal sector, which employs 1,700 and includes some of the biggest offshore law firms. Ogier, which has a presence in 11 jurisdictions and employs 850 people, 500 of them in Jersey, believes its geographical spread has given it an advantage, because clients with cross-border needs – such as someone setting up a Jersey fund with a Luxembourg holding company – can get advice from a single company.

Ogier's revenues were growing at 20 per cent a year up to the crisis and have since slowed to 5-10 per cent. But, says Nick Kershaw, chief executive: "We think there has now been a period of traction in terms of stability in the markets where we operate and levels of activity are beginning to increase."

Carey Olsen, another law firm, has been winning work on company listings and trust company consolidations as well as advising trustees concerned about the security of investments. It sees the island's well established legal system as a big advantage.

Among the island's main challenges now, says Alex Ohlsson, Carey Olsen's managing partner, is to change the "misperception" in the outside world that it engages in activities such as tax evasion and harmful tax competition.

Facts
Big numbers

- **The value** of banking deposits held in Jersey was £152.1bn, at the end of 2012.
- **The number** of regulated funds was 1,388, with a net asset value of funds under administration of £192.8bn, at the end of 2012.

RBC Facing up to tough market challenges

Royal Bank of Canada's trust business was a pioneer of Jersey's expansion as an international finance centre.

Royal Trust, which later merged with the bank, opened an office with four staff in St Helier in 1962. It marked the occasion by presenting a pair of rare Trumpeter swans to the Jersey Wildlife Preservation Sanctuary.

RBC now employs 900 in Jersey, half in trust-related activities and the rest in banking, investment and safe custody. It is thought to be the island's largest trust business after acquisitions in the past 15 years.

The trust sector is one of Jersey's strengths, combining stability for asset protection with growth opportunities in emerging markets.

"The economic environment has made business more challenging," admits Steve Romeril, head of trust for the British Isles at RBC Wealth Management. "We have forward momentum in the business, but not at the rate we have seen in the past and not at the level we would like."

But, he adds: "I think things are turning a corner. We feel we have good momentum in our sales pipeline." RBC is looking for high single-digit growth in revenues, he says.

Trust clients are making fewer transactions than in the past, while winning new business can be hard. But RBC, which has an international client base in Canada, the US and the Middle East, sees Latin America and the former Soviet Union as promising areas.

RBC is serving fewer clients, but they are richer: the wealth threshold needed to justify the cost and complexity of creating a trust is higher. Costs imposed as a result of regulation have risen since Jersey began regulating the industry in 2001.

"Trust is a sophisticated product," Mr Romeril says. "The delivery costs are high and it needs to contain sufficient wealth to make it economically viable."

Many clients use Jersey trusts because they are looking for a safe place to house their wealth, or because they are moving assets across borders or want to pass on wealth within their family in a controlled way.

"Jersey has been successful in ensuring the market recognises there is political and financial stability on the island," Mr Romeril says. He thinks RBC has also benefited from its Canadian heritage and a conservative approach: it was more cautious than other banks before the crisis, but has since then risen up the global table of market capitalisation.

Although regulatory costs have grown, Mr Romeril says that is not necessarily a bad thing. "RBC is highly protective of its reputation and so is Jersey." The island, he says, needs to maintain its political and financial stability. "People are also looking for confidence in the rule of law, so the court and everything needs to be consistent and have quality people in it to ensure high standards of rulings."

But, he concedes: "As a small jurisdiction, it's quite challenging to stay at the leading edge in terms of development."

Brian Groom

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Brand leaders: Aaron Chatterley (left) and Richard Schiessl's Feelunique employs 140 on the island

Online beauty retailer intends to clean up on a global scale

Entrepreneurship Private equity stake funds further expansion, writes *James Pickford*

From an unprepossessing industrial unit in the Jersey countryside, Aaron Chatterley and Richard Schiessl are aiming to create a global brand in online beauty.

These island-born entrepreneurs have already made notable progress. Feelunique.com, the internet retail company they launched in 2005, last year sold 2.5m items of cosmetics, perfume, skin and hair care products to customers in more than 60 countries.

With 140 staff in Jersey and the UK, Feelunique's revenues hit £34.4m in the year to March 2013, up from £26.7m in 2011-12 and £16.4m in the previous year. Its website offers 18,000 product lines from 500 brands, including Dior, Lancome, Kérastase and YSL.

The idea for the business came to Mr Chatterley, the company's chief executive, when he was offered samples of male skincare products at an airport. He realised no company had yet made a name for itself as an online purveyor of cosmetics. "We saw a great idea – to try and own this vertical market that was previously unowned," he says.

Establishing the company has not been without its challenges. Teaming up with his friend Mr Schiessl, chief operating officer, the pair began trading in October 2005 from a small office in St Helier.

But they knew nothing of the selective distribution agreements (SDA) that give brand owners control over where their products are sold. Turned down by most of the big cosmetics companies, they were forced to source their goods from wholesalers. "We were quite naive in the early days," says Mr Schiessl.

To put the business on a better long-term footing, they needed to formalise relations with the brands. This they did by selling a stake in the business to a boutique hotel and spa owner in St Helier and by purchasing a hair salon, both with SDAs already in place with brands such as Elemis spa range and GHD haircare products.

> 'We saw a great idea [but] we were quite naive in the early days'

"We needed the bricks and mortar in order to have the online relationship," says Mr Schiessl.

The business has now gained sufficient momentum to attract the attention of private equity: Palamon Capital Partners and Sirius Equity acquired a stake of just over 50 per cent in a deal at the end of last year that valued the company at £26m.

Jersey has a history of logistical expertise that played to the company's advantage. But operating from a small island presents hurdles. Orders placed before 3pm can be loaded on to a boat for arrival on UK shores at 6am the next day. For UK-based companies, the same order could be taken at 10pm at night and be with the customer the following morning – effectively a day earlier.

If it is a competitive disadvantage, it appears not to have affected performance. For most customers, Mr Schiessl says, the average delivery time of two to three days was "not unreasonable". The company offers free delivery worldwide, and for urgent orders customers have the option of a paid-for special delivery.

As traffic to the site has grown, the founders have felt the need to provide customers with beauty advice, features and other content, and to forge relationships with the beauty magazines that fuel interest in new products. This has required the specialist skills of editorial director Newby Hands, formerly of Harpers Bazaar, beauty director Alice Manning, who joined from InStyle magazine, and communications director Victoria Chalmers, formerly of public relations firm Modus, all recruited to the company since 2012.

But these staff are based in Feelunique's London office, along with about 20 other employees in editorial and specialist marketing functions. "We would not be able to find those skills in Jersey," says Mr Chatterley, who now spends an average of two days a week in London and is looking to expand to 40 staff in the capital over the next year, recruiting web developers and paid search specialists among others. Palamon and Sirius plan to inject £10m into the business to fund expansion.

With finance, customer service, administration and operations remaining on the island, Mr Chatterley says managing the offices is "a real challenge". "It's a tricky thing to do while retaining a common culture, not a 'them and us' environment."

Every recruit spends a day in the Jersey warehouse learning the nuts and bolts of the company's operations, and communication is eased via open Skype links between the offices. In February, Jersey will play host to the company's annual get-together for all staff, while individual teams across offices hold regular gatherings.

Founded at a time when Jersey and its neighbour Guernsey were playing host to a wave of companies taking advantage of a controversial value added tax on low priced goods such as CDs and greetings cards, the company nonetheless stayed on the island when the UK government closed down the relief in 2012.

The founders are adamant that low-value consignment relief was never the motivation for the business, noting that perfumes – a significant section of their business – lay outside the scope of the relief. Mr Schiessl, says: "We never expected LVCR to be here for long and the fact we're still here shows we weren't here because of it."

With young families, both say the decision to be based in the island was strongly influenced by its quality of life.

"I can work 10 hours a day and still be home to put my kids to bed and go for a swim," says Mr Chatterley, adding that if the traffic lights favour him, he can get from the office to the beach in exactly six minutes. "I work to live, not vice versa."

Diet of fibre promises health for economy

Digital

The island offers a testbed for new products, says *James Pickford*

Wired: fibre optics are replacing copper

The succession of industries by which Jersey has prospered during its long history is about to be joined, its leaders hope, by a new area of expertise: digital enterprises and technology.

Politicians and industry figures want to broaden the base of the economy from a reliance on financial services: digital activities, which do not require extensive manufacturing facilities or a large labour force, are seen as an ideal candidate for diversification on a small island.

The state-owned telecoms company JT Global has embarked on a project to rip out the island's existing copper network and replace it with state-of-the-art optical fibre, delivering broadband at 1Gbit/s to every home and business.

By drastically improving the network through the £41m Gigabit Jersey initiative, the authorities hope not only to bring benefits to islanders but to attract companies wishing to use the island as a testbed for digital products and services.

Ted Ridgway Watt, chief executive of Digital Jersey, set up this year by the government to promote the sector, says: "When the Gigabit project is complete, it will be highly attractive for digital companies that wish to use the walled garden approach to test something over an entire jurisdiction.

"If you've developed a security platform, for example, you could plug it in and have instant access across the entire network. It's an unusual position to be in."

So far 4,000 properties – about 10 per cent – have been connected. About 10 per cent of the cost will be recovered by selling the old copper wire as scrap.

Graeme Millar, chief executive of JT Global, says the cost of replacing copper with fibre was reduced by a decision in the 1960s to bury Jersey's wiring in underground ducts following a devastating storm that brought down electricity and telephone poles across the island.

"It's both foresight and luck. It was ducted into people's homes, rather than cut-and-shut," he says. "It means we've been able to work very rapidly. We started last year and will be complete by 2016."

The idea of Jersey as an experimental market has historical precedents. In the 1990s, Italian confectioner Ferrero Rocher came to try out a new advertising campaign featuring the gilded party guests of an ambassador praising his "exquisite taste" in chocolate.

Soft drink brands have also been tested on the island's populace, which has a similar demographic to the average UK city, though wealthier.

Potential sectors for the digital test market include e-health, retail, data management and security. But the initiative is also intended to encourage entrepreneurship, with the States of Jersey in July agreeing the creation of an innovation fund, initially of £5m, to boost small and midsized businesses.

Digital Jersey intends to create a funding vehicle for early and mid-stage growth, for investments between £500,000 and £10m. Mr Ridgway Watt says: "There's an appetite from some high net worth individuals and institutional investors on the island to have a well managed vehicle for technology investment."

With few tech deals taking place on Jersey, the fund would first build a reputation as a "funded from Jersey" brand looking at investments overseas.

"But that is likely to grow in time to 'funded in Jersey'," says Mr Ridgway Watt. "It will be a factor that stimulates enterprise."

The most likely starting point for homegrown tech businesses is as providers to financial services. Jason Laity, chairman of the local Institute of Directors, says: "We need to think about digital as a platform for the rest of the economy. It might be that it can enable growth in a particular area of financial services."

One newly hatched IT company that has demonstrated the potential is Epitomii, founded in 2011 as a technology provider, furnishing companies with everything from printers to network security. With 19 employees, it turned over £2.6m in its first year of trading. Stephen Moore, chief executive with a 90 per cent stake, says the business was pitched as a specialist IT provider for offshore financial centres, largely ignored by global IT groups. "A global bank in London can do business directly with Hewlett-Packard, Dell and so on. That model doesn't exist in offshore markets."

In Jersey, Epitomii has selected 134 corporations on which to focus its energies. Mr Moore says: "Jersey is not aiming to be a marketplace for geeky, quirky software development. It is more of a corporate environment. The objective for Jersey is to be somewhere between the two."

One barrier to success remains the high cost of connectivity. Companies complain connections are between two and 20 times more expensive than on the mainland, depending on the service required.

Mr Ridgway Watt, who until this year was an adviser to the Tech City Investment Organisation, which promotes east London's digital cluster, says: "We need to ensure that the price of telecoms to business is competitive."

Skills Education project encourages pupils to reach for the stars

Skills and education are crucial to the success of Jersey's digital push.

Of a schools cohort of about 1,000, about 25 Jersey students a year start university courses in computing – half the number needed by business. Given restrictions on bringing in workers from outside, that can mean higher labour costs for companies chasing a small pool of expertise.

Digital Jersey is launching a series of schools-based programmes to encourage greater take-up of science and IT among pupils, with a target of quadrupling the numbers within three years.

Ted Ridgway Watt, chief executive of Digital Jersey, aims to galvanise interest through an initiative bearing the audacious title of the Jersey Space Programme.

Using a standard format small satellite at a cost – including launch – of £150,000 to be funded through private sponsorship, the three-year project is intended to prompt a wave of experimentation in Jersey's schools, as students are encouraged to design and test control and communications systems.

"It's a teaching aid, an after-school club and an inspiration," he says.

There are precedents: schools have used high-altitude weather balloons to carry an egg into the atmosphere and track its progress using publicly available meteorological monitoring services.

Mr Ridgway Watt says the functions of the satellite will be determined as the project takes shape, but it too will carry a passenger – a Jersey Royal potato. Which, he adds, leads to an inevitable choice of name for the putative spacecraft: Spudnik.

James Pickford

Innovation is vital to secure greater competitiveness

Commentary
BRIAN GROOM

Jersey did not stick to its knitting in the end, though the woollen garments industry served it well in the 17th and 18th centuries.

Like many islands, it has relied on a succession of dominant industries: fishing, knitting, shipbuilding and, in the past century, agriculture and tourism.

In recent decades the dominant industry – the most lucrative in Jersey's history – has been international finance, built up since the early 1960s.

History suggests this will eventually be superseded, but no one is rushing to ditch a sector that generates 41 per cent of economic activity.

After the worst global financial crisis of modern times, however, Jersey is sensibly looking to add more strings to its bow, diversifying into the digital and technology industries, along with mining and intellectual property, as well as strengthening tourism and agriculture.

The biggest effort is going into the digital area, says Jason Laity, chairman of the local Institute of Directors, who believes it will provide a platform for the rest of the economy, enabling new growth in financial services.

Jersey is far from the only island seeking to attract businesses in e-commerce, software and data hosting – high-value activities that do not need a lot of land or large staffs.

But, as Mr Laity puts it: "All the economies that are growing are ones that have a technological bedrock to them."

This strategy does not mean ignoring financial services. Alan Maclean, minister for economic development, says: "Diversification is important for a balanced economy, but we are not looking to diversify away from financial services. The industry has itself diversified in terms of products and reach."

The finance sector, built around banking, trusts and funds, has not been untouched by the crisis: banking deposits in particular have suffered from the ultra-low interest rate environment.

But it has avoided banking collapses, helped by a policy of allowing only banks from the world's top 500 by capital to operate, introduced after two small local banks failed in 1970.

Since 2010, the sector has stabilised and some parts are seeing signs of an upturn. Diversification has included introducing a law enabling the creation of foundations, the civil law equivalent of trusts.

Some private equity and hedge funds are branching out into clean technology, infrastructure and debt or credit funds, filling a gap left by shrinking bank lending in many countries.

Jersey is also working to expand markets in Asia, Russia, the Middle East and Africa. The Gulf, where it has been promoting itself for a decade, seems likely to yield the earliest results.

The key lies in innovation and being fleet of foot, as a small island must always be. "We've had to listen to what customers want and find a way to deliver that," says James Filleul, chairman of Jersey Chamber of Commerce.

Mr Filleul acknowledges that the recession has been tough for some companies, notably in construction and retail. But, he says: "We are ready to come out of the most challenging phase of the current economic problems strongly and quickly."

Prudent fiscal management has been an important part of Jersey's approach, with the island cutting spending and avoiding deficits.

In 2008, it introduced a zero-10 corporate tax regime, under which financial services businesses paid 10 per cent and other companies nothing: many had paid 20 per cent. At the same time it introduced a 3 per cent goods and sales tax, later raised to 5 per cent. The move was controversial but improved competitiveness.

The island's biggest task now is to fight for its reputation as a well-regulated jurisdiction in the face of global demands for action against tax havens. Jersey rejects the label, arguing that its aim is tax neutrality, a policy of not adding an extra layer of tax to that due in an individual or corporate client's home country.

This is not an easy task, even though Jersey has avoided some of the more controversial issues.

It does not, for example, entice multinationals seeking to minimise their tax bills because it does not have the requisite double taxation agreements. And it is well ahead of G8 countries pushing for a register of beneficial owners of companies: disclosure of beneficial ownership has long been a requirement of Jersey's company registry.

James Filleul, Jersey Chamber of Commerce chairman

A trickier issue to handle is legal but "aggressive" tax avoidance, such as the UK scheme that was employed by the comedian Jimmy Carr and others, which involved a Jersey trust. The island has made clear it does not want such business, but it is hard to stamp out.

For 15 years Jersey has been complying with the tightening international pressure on regulatory standards and tax exchange arrangements in offshore centres.

Some islanders wonder when the dividend will come, but it is hard to see whether the pressure will ever end.

Jersey's interest lies in continuing to co-operate.