Britain and Spain agree to negotiate constitutional changes in Gibraltar

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The foreign ministers of Britain and Spain, Jack Straw and Josep Piqué, met in Barcelona November 20 and agreed a six-month negotiation process to resolve the contentious constitutional issues surrounding Gibraltar's status.

The 6.5 square kilometre outcrop at the southern tip of the Iberian Peninsula was seized by British naval forces in 1704, and was formally ceded to Britain in the 1713 Treaty of Utrecht. Spain's last attempt to take it back by force was in 1779.

Throughout much of the nineteenth and twentieth century, Gibraltar was a strategic military base for British forces, keeping open the sea-lanes to India, Australia and New Zealand. Now, with a population of around 30,000 comprising mainly English, Spanish, Italian, Maltese and Portuguese speakers, it is primarily a tax haven for the 53,000 companies registered there, which pay no tax and are known as "brass plate" companies as they do not operate locally.

Straw and Piqué's announcement brings forward by six months the previously proposed deadline for completing the talks. As part of the negotiations, a meeting is to be held between the two countries at the beginning of next year.

According to press reports, British Prime Minister Tony Blair had instructed Straw to resolve the 300-year dispute, which increasingly disrupts European Union (EU) business and has long soured Anglo-Spanish relations. Currently a number of EU and Organisation for Economic Co-operation and Development (OECD) initiatives are said to be in disarray because of this long-running disagreement. Spain is also keen to secure a settlement by next summer, when its EU presidency ends.

The moves appear to be motivated by a number of factors. In 1998, the OECD launched an initiative against offshore tax havens, which it argued deprived other countries of tax revenues. Gibraltar is one of 35 countries accused of harbouring tax dodgers. Gibraltar was told that it must end its special tax deals for foreign companies and allow international inspection of its banking system, if it was to avoid sanctions.

Such has been the backlash against the proposed "tax police"—led especially by the Bush administration in the US—that the OECD has had to water down its proposals. Nonetheless Spain has used the tax harmonization measures to increase the pressure for discussion with the UK regarding Gibraltar's status. It is demanding guarantees that Gibraltar will reform its tax regime, and has used its vote on the OECD to veto agreement on tax directives and other measures.

Straw and Piqué's agreement to negotiate addresses these issues. Britain has given assurances that it will take the responsibility for introducing changes in Gibraltar's taxation system. In return, Spain has dropped its vetoing tactics but continues to threaten to disrupt further measures on European co-operation.

It seems that both London and Madrid agree that the present situation is an unnecessary stumbling block to improving relations within Europe. On January 1, when Spain takes over the European Union presidency, 12 EU countries (including Spain) switch over to the single European currency, the euro. A Gibraltar still working in Sterling—Britain has yet to agree to join the euro—will find it impossible to operate. About six million tourists, nearly all Spanish day-trippers, visit Gibraltar each year, and business people fill the hotels and flights.

It is also possible that Blair sees Gibraltar's conversion to the euro as a means of signalling his own support for British adoption of the single currency.

The finer details of Gibraltar's eventual status still remain cloudy. The British Foreign Office has spoken of Britain and Spain "pooling sovereignty", and also of a "sliding scale of sovereignty" that would see control gradually pass to Spain. Peter Caruana, Gibraltar's chief minister, is being encouraged by Britain to join future negotiations, as a means of ending Spanish obstructions on border controls and restricted use of the local airport.

Caruana, however, told the *BBC*: "We frankly don't see why we should be expected to give up our British sovereignty to buy off the Spanish blackmails and the Spanish vetoes of European business, which is really what is behind all of this." Later adding, "The people of Gibraltar have been British for 300 years. We are a colonial people with the right to decide our own future. The idea that the sovereignty of Gibraltar can be handed around between the UK and Spain, either on a partial or shared basis, regardless of the wishes of the people of Gibraltar, is a democratically obscene position."

Several solutions are being discussed to overcome the opposition from the Gibraltar inhabitants to a transfer of sovereignty. One is that a referendum to decide the issue would be postponed for 30 to 50 years, with Britain and Spain sharing sovereignty until then. Outright independence has been ruled out.

The second proposal being aired is a "Hong Kong-type" solution whereby Britain interprets literally the clause in the Treaty of Utrecht committing it to never reach any agreement transferring the people of Gibraltar to the sovereignty of another country. This could allow London to transfer sovereignty of the territory but not the people, giving Gibraltarians the possibility of remaining British citizens.

This would be difficult to implement, although every effort is being made to persuade the Gibraltarians to agree. According to the Spanish newspaper *El Pais* a "carrot and stick" tactic are being employed. The carrot being to point to the economic and social advantages that would accrue to the inhabitants from a normalisation of relations with Spain and the EU. The stick being warnings that opposition to tax harmonisation measures will eventually doom Gibraltar's economy. As an added incentive, Spain has proposed to increase to 100,000 the number of telephone lines into Gibraltar—restricted to only 10,000 up to now—and to provide medical services for Gibraltarians in Spain.