

[illegible]



①

Res.  
— Whose is the vital document for  
signature?

②

18/9

~~Y.H.~~  
— Have the other copies of the agreement  
gone back to London under cover of your 483?

③

19/9

Col/Ser

W.O., they were in the back of the  
file

E.C.  
19/9

④

Res.  
— All find the missing copies of  
the agreement. They are not at G.H. or sent  
to London.

⑤

19/9

~~Y.H.~~

I have signed the agreements and  
you may be able to get them away in the  
mail?



FS

(6)

R 496. Cheque for  
taking the revenue and receipt &  
ack to Algiers.

24/11

(7)

C.S.

Receipt has been forwarded to Algiers Ltd and  
copy of letter is attached, i.e.

27/11

(8)

to his Ser

BU

24/11

I did 502 / when you and  
the 2nd sending instructions I think  
we should discuss. We may have to  
what the R has in it about the 2. 9. 6  
has been of the standard

P.M. 24/11

(9)

FS

M see R 502 & enclosures.

24/11

(10)

C.S.

Seen, thank you  
and  
27/11

BU 1/1/73



(11)

YE

You BU at R505.

5/12

BU 20/1/73

(12)

YE

You BU at R513.

11/1

(13)

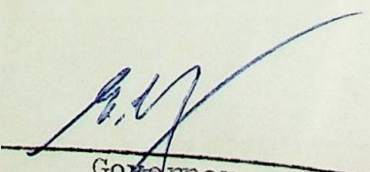
Chief Secretary,

I think the Financial Secretary, Mr Bennett and yourself should study the papers at pp 508 - 513 and then perhaps we could have a meeting to discuss the implications with Mr Comben.

2. Also when Mr Pery and Drew are in Stanley it would be useful if they could meet the Development Committee to explain the plans.

3. Mr Pery and his colleague arrive on the 22nd so we will have to move fairly quickly.

15th January, 1973.

  
Governor



(14)

F.S.

With (13) pl. the file to RSC.

15/1

(15)

R.A.B.

Please see 13 at pages 508-513

(16) 16/1

Chief Sec.,  
508-513 seen to. y.

R.B.  
17.1.43.

(17)

Mr Comber

To see R 508-513 pl

(18)

18/1

Type

Make 2 copies of R 519 & 520

(19)

24/1

YE

YE may like to see R 524-8 before tomorrow's meeting.

1/2

(20)

YE R 529. If we can agree on this approach, RSC could start drafting while Mr G is still here.

6/15, I approve and the R.A.B. should show the draft to Mr Comber 6/2



(22)

RSC R 522 & 523 & 529 and minutes

(20) & (21) pl. Pl discuss with Mr

Comber who is ab here 2 more days.

(23)

Chief Sec.,

I have discussed with Mr. Comber and he said that in addition to the two new subsections to section 11 of the S.B. © which he has drafted at p. 529 he will, after his arrival in England and after further arranged discussion with the Hon. Mr. Perry, produce two Orders in Council to cover the position.

GPB.

8. ii. 73.

(24)

RSC

Good. What is needed now is the complete amendment in a form to take to Exco. Could you produce pl, so that a suitable memo can be drafted?

(26)

Chief Sec.

Draft amending Bill attached pl.

GPB.

12. ii. 73.

(27)

FS Is draft of Face satisfactory? Could you pl produce draft Exco memo.

~~6/5~~ ~~1/2~~ ~~to draft~~ ~~21/2~~

(28)

21/2/73

14/2

The draft bill appears satisfactory. Draft Ex. to memo

Harrell

21/2



AS. Exco memo for Fairis /

✓  
22/2

C.S. ✓ Yes, let some all remain &  
agreed together

Memoes found pt. May now be run-off and issued?

§

22.2.73

(29)

Y.E.

R 540 met Thyl Council yesterday, and Y.E. on incl  
to write to Perry advising him of this and also to the FCO  
generally - Alquties? R 517 & 518 refer.

✓  
2/3

BV 1/5

(30)

Reg.

There is one more letter for filing on  
this.

Y.E. ✓ 29/3

(31)

✓  
27/3

We spoke, and I cannot see that  
we have in fact told Perry that Exco has  
agreed in principle to the draft legislation being  
forwarded to Legco. Perhaps we should drop  
him a line together with a copy of R 539?

(32)

F.S.

To see next op

✓  
3/7

✓  
29/3

Bull 1/3 Bull 1/6



(33)

g. l.

Seen 1.7

ad  
2/8

BU

23/8

✓

(34)

FS.

To see R560 and discuss idc pl.

(35)

✓  
22/8

g. l.

Draft memo for L. to. attached.

From the file it appears that L. to. has  
not been consulted regarding the condition of the beam  
despite (C) of 1484 and (C) of the agreement.

ad  
18/9

FS  
OCS

(36)

Good. Draft approved as amended.

Pl have run off & held ready for Exco  
to go out.

(37)

✓  
19/9

BU 12.10.73

PCS  
to  
of memo

Hld this file ready for mine

BU 12.10.73



F.S.

Views - /X of R 571 L.

19/10

C.S.

The proposed legislation appears to be satisfactory.

2. I will not prevent the reception it will get in Leg Co. but some members are hotly opposed to give the Government in Council certain powers.

3. I am not sure whether the £200,000 in the proviso to Clause (1) of the Bill is appropriate for the F.S.

to. May I discuss with you pl.

/ at  
22/10  
Not discussed

(40)

✓ (38) + (39) with R 560. I'm not sure where we stand on this whether we should consider Mr Comber's legislation now or await developments.

(41)

RSM  
6.11.73

b.B. / We will await developments

/ 6/11

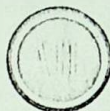
Bu 29/11



# ALGINATE INDUSTRIES

L I M I T E D

120, GEORGE STREET, OBAN, ARGYLLSHIRE.



DIRECTORS:  
W. R. MERTON, Chairman.  
R. R. MERTON  
R. CAMPBELL PRESTON, } Managing  
O.B.E., M.C. } Directors.  
A. C. W. NORMAN, O.B.E.  
R. H. McDOWELL  
D. L. BANKES  
F. I. O. GRIFFITH-JONES  
M. H. C. PERY.

TELEPHONE:  
OBAN 2036.

HEAD OFFICE

22 HENRIETTA STREET  
LONDON, WC2E 8ND

28th December, 1971.

J. Turner, Esq.,  
Ministry of Defence,  
Tolworth Tower,  
Tolworth,  
Surbiton, Surrey. KT6 7ER.

Dear Mr. Turner,

Camber Site, Falkland Islands.

Thank you for arranging the meeting on 17th December. As requested, I am enclosing a copy of your drawing of the Site with our suggested requirements marked in. At the same time, I thought it might perhaps be helpful to confirm in writing some of the points that we discussed at the meeting.

## Land Requirements.

As discussed at the meeting I have split our requirements as follows:-

Phase 1 (coloured red on the Plan) is the minimum that we would require for our initial development.

Phase 2 (shaded green on the Plan) would be sufficient to cover our requirements for the foreseeable future.

Bearing in mind that the area shaded green is largely unlevelled hill or "camp" I imagine that the difference in the annual rent between Phase 1 and Phase 2 will not prove to be a major factor. If this is the case, we should be very happy to lease both the areas shaded red and green from the outset.

As it is extremely difficult for us to forecast the way in which it will prove most economic to expand our plant on the Camber Site in years to come, we should like to have some Clause giving us an option to extend our lease to include adjacent areas to the Site marked as maybe agreed in the future.



THE QUEEN'S AWARD TO INDUSTRY

/-



444

No. 17 in P.A.S. plan.

The area shaded blue covers the existing "Coalshed" (in which fuel for the Beavers and the Hovercraft is at present stored in 40 gl. drums) and also access to the Coalshed. We should obviously require to have a right-of-way across the area marked in blue in front of the Coalshed but I presume that you would require us to undertake not to erect any structure or permanent conveying equipment in this area which impeded the access to the Coalshed.

As the Coalsheds are at present used for storing fuel oil, it seems likely that we shall be required to leave a space between our proposed Factory building and the Coalshed. This means that, in effect, the existence of the Coalshed halves the available level area on the Site. If, as seems possible, it would be more convenient to all concerned to store this fuel somewhere nearer its point of use on the Stanley side of the Harbour, it might very well be in our interests to pay the Parties concerned for the erection of new buildings from the outset. This proposal would seem to have the following advantages:-

1. The fuel oil could be stored nearer to its point of use and thus cut the handling cost.
2. By use of very simple mechanical handling, the same quantity of fuel oil could be stored in a much smaller area.
3. It would enable Alginate Industries to make full use of the level Site on the Camber as opposed to "sterilising" half of it.
4. It would simplify any possible problems over access to the Camber Harbour as, apart from the oiling jetty, the Harbour would be used almost exclusively by Alginate Industries.

I anticipate that the area shaded red in the Camber Harbour would be used for storing wet kelp as discharged by the Harvesting Craft. The wet kelp would be contained by booms with weighted nets hanging from them. I appreciate that it might be necessary for us to dredge the area shaded blue marked "undredged" and to erect a landing stage and steps at some convenient point in the area shaded blue.

Maintenance.

I understand that the Ministry of Defence would wish to retain the Caretaker's house and that the Falkland Islands Company would continue to act as Agents. As I anticipate that Alginate Industries will be bearing a large proportion of the maintenance costs for the Harbour (being the main Users), I think it is important that the Company should be allowed to undertake this maintenance as Principals to the standards agreed by the Falkland Islands Company acting as your Agents. I mention this, because once established, we shall almost certainly have the necessary equipment and employ skilled personnel so as to enable us to carry out this sort of maintenance work far less expensively than would be the case if it was contracted out.

Its pink on p. 4+8 but a blue ink line has been written to indicate the undredged area.

J. 12/3



445

Fuel Supply.

I understand that it is agreed in principle that we shall be allowed, on repayment, up to 2,000 tons per year. When our requirement exceeds 2,000 tons per year, the Ministry of Defence will hire to us one of the two storage tanks for storage of Gas Oil to a specification to be approved by the M.O.D. In either event, we shall require a bunker tank to be fed from the main supply line. When we come to make the arrangements for hiring one of the storage tanks, I understand that Alginato Industries will be responsible for the cost of back-flushing the supply line etc.

Miscellaneous.

1. Subject to Ministry of Defence approval, we should require to erect suitable navigational aids (lights, etc.) at the Camber Harbour.
2. We should like to have use of the 3 ton crane and understand that it may prove necessary for us to relocate this on the area shaded blue on the plan.
3. We may require to erect a conveyor down the West side of the Camber Harbour but would leave the Oiling Jetty clear from any permanent structure.

Terms of Lease.

*What is the rent to be?*  
I understand that you will be discussing the terms direct with Mr. Stewart. Basically the Lease will be for 50 years with break points and rent review procedures as agreed by Mr. Stewart and yourself. We tentatively agreed as a start date the 1st April, 1972 or the date at which the Kelp Concession Agreement with the Falkland Islands Government is signed - whichever is the later.

I hope that the above is sufficient for the Ministry of Defence to draw up their proposals. The more that I consider the question, the more I feel inclined to think that it would be much better for all Parties if an alternative Site could be found for the fuel at present stored in the Coalshed. Should this prove possible, I should be most grateful for a rough indication of what you estimate would be the cost of providing alternative facilities.

I apologise that this affair has been so long drawn out but you will appreciate that this goes hand in hand with the Agreement with the Falkland Islands Government.

With all best wished for 1972.

Yours sincerely,

*Michael Perry*  
M.H.C. Perry.



# ALGINATE INDUSTRIES

L I M I T E D

120, GEORGE STREET, OBAN, ARGYLLSHIRE.



## DIRECTORS.

W. R. MERTON, Chairman.  
R. R. MERTON  
R. CAMPBELL-PRESTON, } Managing  
O.B.E., M.C. } Directors.  
A. C. W. NORMAN, O.B.E.  
R. H. McDOWELL  
D. I. BANKES.  
F. I. G. GRIFFITH-JONES.  
M. H. C. PERY.

TELEPHONE:  
OBAN 2034.

HEAD OFFICE

22 HENRIETTA STREET  
LONDON, WC2E 8NB

25th January, 1972.

J. Turner, Esq.,  
Ministry of Defence,  
Tolworth Tower,  
Broadway, Tolworth,  
Surrey, KT6 7DR.

Dear Mr. Turner,

Mr. Stewart has passed on to me your letter of 19th January and I apologise for not getting this to you before you wrote your Minutes. Our Factories were closed down over the Xmas and New Year period and consequently there was a delay in getting the plans marked up.

I confirm that our requirements are essentially as shown on the plan attached to my letter of 28th December. I am afraid that my haste in sketching in the Plan at the Meeting caused some misunderstanding as it would be essential for us to have the level area of ground marked A on your plan (which I am returning with this letter).

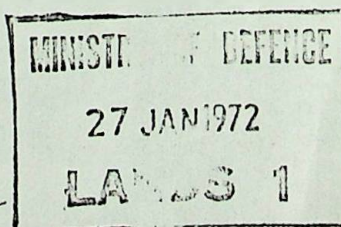
I agree that the Stage 2 requirements as shown on the plan I sent to you are more extensive than what I suggested at the Meeting. It is extremely difficult to know at this stage exactly how much land we shall require and, without contours and borings it is impossible to tell which is the most suitable piece of ground for erecting buildings. It is possible that either of the shaded areas on the plan, marked B or C could be sufficient but, unless there is some good reason for limiting our requirements, I should prefer to take our requirements for Stage 2 as shown on my recent plan.

The more that I discuss the question of the Coalshed with my colleagues, the more that I come to the conclusion that it would be far more satisfactory from our point of view if it were found possible to move the fuel stores from the Coalshed at the outset.



THE QUEEN'S AWARD TO INDUSTRY

/-





447

As regards the fuel supplies, I was under the impression from what was said by Mr. Keech that an annual take-off of 2,000 tons would be available for Alginat Industries. I think that this is quite an important point because the combined annual consumption of BAF and the Falkland Islands Government must be somewhere approaching 2,000 tons at present.

I understand from Mr. Kinnear that the FCO has received a letter from the Falkland Islands Government approving the negotiation for the Kelp Concessions apart from one minor change in the wording of one of the paragraphs. I should hope therefore that the Agreement will be signed and sealed in the next two to three months.

Yours sincerely,

Michael Perry

M.H.C. Perry.



28th February

72

Your ref: HGF 7/3

ALGINATE INDUSTRIES - CAMBER SITE

442 Your letter of the 9th February about the Camber Site and Alginat Industries reached me at an exceptionally busy time with the Governor away on a three weeks visit to Antarctic bases and my own final departure only four weeks away. I am afraid it may take some time to deal with the matters raised in your letter.

In these circumstances I thought it best to get an interim reply by correspondence off to you by our next outgoing mail. Of course, if I am able to process the matter and telegraph you a reply before then I shall do so.

J. A. Jones

G. F. Kinnear, Esq., O.B.E.  
Atlantic and Indian Ocean Dept.,  
Foreign and Commonwealth Office,  
London, SW1A 2AH

JB

S/C

See my minute to you p. 442.

28/2



Note:

P. 442. No colony Argas stored in the  
"coulshed", but BAS have stocks  
stored there.

§

P.S.C.

From p. 442. Have you any comments pl?

§

of Cl. Sec.

Col. Sec.,

No comment t. y.

" 2. The land is held in fee simple by  
the Commissioners for executing the Office  
of Lord High Admiral of the U. K. (apparently  
now the Ministry of Defence) although  
Government built a Quarantine Station on  
part of it.

J.P.B.

15. iii. 72.



WILLIAM F. MUNDY

In the event of replying  
to this letter, please do  
so to:

William F. Mundy  
General Luna 1284  
Montevideo (Uruguay)

March 3, 1972

J. A. Jones, Esq.,  
Colonial Secretary  
Stanley, Falkland Islands

Dear Sir,

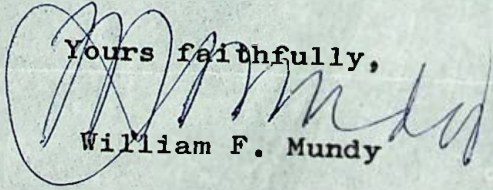
I wish to thank you for your letter dated February 10, 1972, just received.

I do not more encroach upon your courtesy and goodwill. Will you kindly request Alginate Industries Limited to please sendy Airmail Parcel Post an average assortment of short piece of the local algae, naturally in dry condition, together with approximate FOB prices of each of the types and indication of the probable monthly availability of each type.

I refer to you, particularly because my business group wishes treat this project with urgency and, I have not yet received any communication from Mr. Gooch.

Please accept respectful assurance of my gratitude for the aid present and future that you are according to this matter.

Yours faithfully,

  
William F. Mundy

wfm/ia

---

Correspondents in:  
London Hong Kong Los Angeles San Francisco New York Montevideo Porto Alegre



15th March, 1972

... I received in today's mail a further letter from William F. Mundy a copy of which is enclosed and would be grateful if you would correspond with him on the matter to which his letter refers. Meanwhile I am writing again to Mr. Munday saying that I have sent to you a copy of his most recent letter.

J. A. Jones  
Colonial Secretary

Mr. D. F. Gooch,  
Colonial Manager,  
Alginate Industries Ltd.

Reply at 456



## GOVERNMENT TELEGRAPH SERVICE

FALKLAND ISLANDS

SENT

WAI 821 584578/790938 500 pds 12/68 Grp.782

Number	Office of Origin	Words	Handed in at	Date
				16.3.72
To	ETATPRIORITE PRODROME LONDONS SW1			H.O. A/C

No. 109  
16th March 1972

ADDRESSED TO FCO TELNO 109 OF 16 MARCH: Kinnears LETTER HGF 7/3 of  
9 FEBRUARY: ALGINATE INDUSTRIES LIMITED

THE REFERENCE IN PERY'S LETTER OF 28 DECEMBER TO FUEL FOR THE  
BEAVERS IS AMBIGUOUS. THE FUEL IN QUESTION BELONGS TO THE BAS  
WHOM I AM CONSULTING ON THE PROBLEM INVOLVED. LEWIS

Time



452  
654

Three years of negotiations with Alginate Industries Ltd have brought us to the stage where Heads of Agreement are about to be settled between the Company and the Colony Government.

2. I had hoped that basic agreement would have been reached before I left the colony. Unfortunately this has not proved to be the case. However, there is no need for me to minute on the situation at great length. The most recent submission on the matter to Executive Council, which is to be found at pp 452-457, clearly sets out the position as at that time. The subsequent letter (p.439) which I sent to the FCO indicates where the snag lies. Provided that snag can be satisfactorily resolved there would seem to be no reason why the Heads of Agreement should not be finalised.

3. Concurrently with the question of the Agreement between the Falkland Islands Government and the Company negotiations have progressed between the latter and the Ministry of Defence on leasing parts of the Camber site from that Ministry. The papers from p.442 set out the stage reached in the negotiations.

4. The Company's case for leasing part of the site in question has our support. The only real snag in those negotiations at the moment appears to be the existence, in the north centre of the main area shaded pink in the plan (p.448) of the "coal shed" in which fuel for the "Beavers" and the hovercraft is stored, together with the ancillary question of a right of way. The use of the phrase "The Beavers" at the top of p.444 gives the impression that the petrol in question belongs to the Falkland Islands Government Air Service but this is not the case. The fuel in question belongs to the British Antarctic Survey. The telegram p.451 refers to this situation. I have discussed the matter with the Officer-in-charge BAS Stanley who is communicating with his headquarters in London. You will note that the Company considers it might be in its interest to accept financial liability for the erection of new buildings for those organisations currently storing fuel in the "coal shed".

5. We do not need to take into account the hovercraft which is in any case under the MOD umbrella.

J.A.J.  
16.3.72

OK  
for my successor.

16/3

By 29.4.72



15th March 1972

Dear Mr. Munday,

Your letter of the 3rd March reached me today and I have passed a copy on to Mr. Gooch. Mr. Gooch has in fact only recently returned here from a short holiday in Argentina and Uruguay and this is probably the reason why you have not yet received any reply from him to your earlier enquiry.

Yours sincerely,

J. A. Jones  
Colonial Secretary

Sr. W. F. Munday,  
General Luna 1204,  
Montevideo,  
Uruguay.

cc: D. F. Gooch, Esq.



# ALGINATE INDUSTRIES

LIMITED

Port Stanley - Falkland Islands - South Atlantic

TEL. No. 220.

J A Jones Esq.  
Colonial Secretary.  
Falkland Isles.

Your Ref. 0004

17th March 1972

Dear John.

Thank you for your letter of the 15th inst. with the enclosure of Mr Mundy's letter and your reply (copies) just received.

I replied to Mr Mundy's of the 8th December upon my return from holiday, but of course he has not yet received this. I explained that this request for weed samples would have to be negotiated through London, and also forwarded a copy of his request to Mr Pery, and also explained that I had been on holiday which accounted for the delay.

He appears to be an American by the way the date is written, and I wonder which company he represents. Our people are in close touch with Kelco of San Diego, Cal. USA, and also about two years ago I was approached by a representative of Fleishmans Yeast Inc. in Montevideo with the same request, and he was referred to London, but this seems to be a different company as Fleishmans; which is a large concern being part of International Foods Ltd. who have ramifications in the UK, have already been in touch with AIL in London.

No doubt we will learn in due course what the object in view is as to the industrialization of the kelp, and who are the interested parties. I know that in Uruguay there is a small industry in activity at La Paloma in Rocha where agar agar is manufactured from a type of algae called Pterodadia Pirnota which is of the group known as the red seaweeds (Rhodophyceae) and which also abounds in New Zealand sufficiently to support quite a considerable industry. The limited supply in Uruguay could be the reason for this request, but agar agar types are very sparse here in the Falklands.

I will be able to get a line off to Montevideo by the projected schoolbus trip of the "Endurance" and also be able to let Mr Pery know of the latest request.

AIL are now toying with the idea of doing the whole process here. The deciding factor is I believe, the availability of the chemical calcium chloride in Argentina and the possibility now, of being able to obtain this at a far less cost than it would have entailed importing it through the FIC. This is used in large quantities in the extraction of calcium alginate from the milled kelp. We are about to embark on a series of experiments with this object in view. Also there is a program of drying trials to be carried out with the modified dryer, the completion of this work on the machine in question being our present activity.

I take this opportunity of bringing you up-to-date with what we are up to, and thank you for your attention to Mr Mundy.

Very sincerely

D F Gooch.



457

J 22/3

Dear John,

With reference to stocks at Camber Coal Shed. I informed you the reason for our storage over at the Coal Shed and, after discussing with Clem, we recommend a storage shed size 15' x 24' x 8' would give sufficient space for our stocks and possibly your emergency stocks of about 50 drums.

Hope this useful.

Yours age!  
J

21.3.72

S/C Mr. Alvin Industries Pte & early  
introduction to me.

J 22/3



22nd March, 1972.

L56

Many thanks for your interesting letter dated 17th March, 1972. Its penultimate paragraph opens up exciting possibilities.

On a personal note, I expect to be in London and in South-west Scotland some time during the second half of the year and, having been for some three years now associated with your Company's project here, will maintain contact with your London office in case I can be of any assistance to them. Perhaps you could advise them of this.

(J. A. Jones)

Mr. D. F. Gooch,  
Colonial Manager,  
Alginate Industries Ltd.

BA

KIV-457



457

A.C.S.

P. 457.

We need an estimate of the  
cost of the building. Thereafter, being committed  
as may be necessary with H.E., a follow-up  
letter i.e. w. my tel. p. 453 will be necessary  
in order to provide a full reply to pp. 442.  
(See also my minute p. 454.)

J<sub>2/3</sub>





Foreign and Commonwealth Office  
London SW1

Telephone 01-

HE Mr E G Lewis OBE  
Government House  
Stanley  
Falkland Islands

Your reference

Our reference HWF 7/2

Date 24 May 1972

*B/W Kinnear / E.G. / 17/6*

*Dear Lewis*

ALGINATE INDUSTRIES LIMITED

102

1. As promised in our telegram ~~465~~ of 19 May, I enclose the final draft agreement with Alginat Industries which has been cleared with Sir Hubert Flaxman.

2. You will see that Alginat's lawyers have split the agreement into 2 parts, the second part being the actual licence and I trust that this will be acceptable to you.

3. I should be grateful if you would telegraph as soon as possible giving your agreement to the draft or any amendments which you wish to be made so that the agreement can be signed by Alginat Industries Limited and sent to you for your signature.

*Reply 4480*

*Yours ever  
George Kinnear*

G F Kinnear  
West Indian and  
Atlantic Department

ENC



S.P.W.

Please see paras. 3 + 4 of p. 454 and  
pages 457 + 459. Would you in  
consultation as may be necessary with  
O.I.C. B.A.S. kindly submit an estimate of  
the cost of the building.

of  
to Cr. Sec.  
15.4.72.

G. S.

Rec'd 461  
17.4.72.

Ref. paras. 3.4 of 454 + 457 + 459.

I recommend the height be increased from  
eight feet to ten feet, as a storage 15 x 24 will only  
store 77 drums, I have no doubt there will be times storing  
will be double tier, bringing the capacity to 154 drums, this  
being the case, the roof would need to be higher than eight feet  
in order to gain adequate ventilation necessary for a  
non-inflammable petrol storage

Appox. Cost. = £900.

The Royans.  
17.4.72.



462

*E.G.* *B/W*  
*14/4*

PRIORITY

RESTRICTED 101520Z

Your telno 125.

Alginat Industries Ltd.

Draft agreement received from Alginates on 7 April. They have  
accepted amendment to clause 8 proposed in Jones letter of 24 December. ✓ 439

2. Agreement has been sent to your legal adviser for his comments. ✓

When these are received they will be put to Alginates where necessary

and final draft will then be sent to you for approval. ✓

DOUGLAS-HOME

*B/W 15 May 72*  
*E.G.*



A.C.S.

Reverse - Thank you.  
 I have seen Mr. G. & now I wd.  
 like to discuss with John Walsh.  
 Cd. you contact him & suggest  
 9.30 am Wed. 10th pl.

I wd. also like to mention  
 housing to him at the same  
 time.

J. 8.5.72

Ag. A.S.

LT/Cdr. Walsh contacted. He  
 will call down at 0930 on 10th pl.

No problem to NP 8902

J. 8.5.72.



Act

He speak

19.4.72

Mr Gorch to call  
+ discuss on Monday  
at 2 pm if convenient.

Ag. C.S.

Arranged pl.

6.5.72.



file pc.  
464  
ROUTINE

RESTRICTED 181330Z

Addressed to FCO telno 163 of 18 May 1972

ALGINATE INDUSTRIES LTD

1. It would be helpful to know when we can expect to receive the final draft agreement.

465  
G.O. 19/5  
PRIORITY

RESTRICTED 191300Z

From FCO telno 102 of 19 May 1972.

Your telno 163: Alginate Industries Ltd.

1. Draft agreement has now been finally agreed with Alginates who have referred it to their lawyers for final clearance. We hope to send draft agreement for your approval by next bag which will have to await amphibian of 13 June.



468

Mr H Bennett, Registrar

AGREEMENT WITH ALGINATE INDUSTRIES LTD

1. I would be grateful if you would check the attached draft agreement with Alginat Industries Ltd. The draft has been cleared with Sir Hubert Flaxman and, as you will see, the agreement has been split into 2 parts, the second part being the actual licence.
2. There is some urgency about this matter as I will have to have the draft agreement considered by the Executive Council and probably the Legislative Council within the next few weeks.

*E. G. L.*

EGL

21 June 1972

*gy. E. 6.6/4/7*  
*checked, thank you*  
*H. B.*  
*24. VI. 72*

*6.6/4/7*

*From 466 for information.*

*E. G. L. 4/7*

466A

MINUTES OF DEVELOPMENT COMMITTEE MEETING  
HELD ON 13TH JUNE 1972

3. THE KELP INDUSTRY

The Committee asked Mr. Gooch, Colonial Manager of Alginat Industries Ltd., what his Company's plans for the future were. Mr. Gooch was not able to say when large scale harvesting would begin but it was expected to be in approximately two years. Harvesting on a major scale could not begin until a plant had been assembled and a harvesting craft built. One type of kelp (*durvillea*) was not harvested mechanically and it would therefore be possible to start on a small scale before the harvesting craft arrived. Experiments to date had been very satisfactory and he anticipated that activities would be considerably wider than had originally been thought. Mr. Gooch stated that his Company had indicated a willingness to invest £700,000 more than originally planned. He would shortly be travelling to the United Kingdom to work on a plant for shipment to the Islands to conduct further experiments.

Mr. Gooch then left the meeting.

The Committee expressed their concern at the slow progress of negotiations between Alginat Industries Ltd. and the Falkland Islands Government and asked to be kept advised of every stage of the negotiations.

The Committee also pointed out that a new process of refining the product mentioned earlier by Mr. Gooch, would reduce the bulk and therefore the export tax payable to the Falkland Island Government.



RESTRICTED

URGENT



**Foreign and Commonwealth Office**  
London SW1

Telephone 01-

Your reference

Our reference HGF 7/3

Date 9 February 1972

J A Jones Esq OBE  
Colonial Secretary  
Stanley  
FALKLAND ISLES.

Dear John,

Reply at 440

**ALGINATE INDUSTRIES LTD - CAMBER SITE**

1. Further to my letter of 11 January with which I sent you a copy of the minutes of the meeting with Alginate Industries on 2 December, we have now received from the Ministry of Defence details of the requirements of land at the camber site by Alginate Industries. I enclose copies of letters dated 28 December and 25 January from Alginate Industries to the Ministry of Defence together with the plan of the camber site in which details of the company's requirements of land are specified. You will see that the land on both sides of the coal shed in which you store petrol in drums is required by Alginates, and that they would also have the coal shed. They offer to pay for the erection of buildings on the Stanley side of the harbour in which the drums could be stored, which would presumably make the coal available for their use.

2. The Ministry of Defence have no objection to the whole area, including the coal shed, provided that Alginate is prepared to make it available. The transfer of petrol storage to the Stanley side of the harbour may be more convenient than avoiding double handling of drums, and I should be grateful if you would kindly telegraph your views on this proposal to the Ministry of Defence wish to complete negotiations with Alginates as soon as possible.

P/C X, I plan. I do not think  
that the RSC is stored in the "coal shed".  
Therefore we are not concerned.

Yours ever  
George.

G F Kinnear  
Atlantic & Indian Ocean De

These assumptions were based on OCA that I am right.  
If any commits RSC my leave.

RESTRICTED



WILLIAM F. MUNDY

In the event of replying  
to this letter, please do  
so to:

William F. Mundy  
General Luna 1284  
Montevideo (Uruguay)

March 20, 1972

D. F. Gooch, Esq.  
Colonial Manager  
Alginate Industries Ltd.  
Port Stanley - Falkland Islands

Dear Sir,

I thank you for your letter dated 28th February, 1972 which has just arrived. As I had not received any communication from you up to that time, on March 3, 1972, whilst replying to a letter from the Colonial Secretary, I inserted a paragraph asking him to kindly request from you that you please mail me as soon as possible

"an average assortment of short pieces of the local  
"algae, naturally in dry condition, together with  
"approximate FOB prices of each of the types and in-  
"dications on the probable monthly availability of  
"each type."

If, without incurring displeasure with your principals you were to comply with this request, even prior to relations with them being established, you would give me the opportunity of clarifying with my associates, some of the doubts that they still have regarding the suitability of your varieties of algae within our project.

We are going to establish in Porto Alegre, Brazil, a new modern plant for processing certain varieties of algae under a plan of operation able to progressively raise production to volume as large as may be possible within 3 years. We are pressed for time and anxious to develop as soon as may be possible all the features of a future linked with your company. Hence the urgency in requesting a quick delivery; if possible, on ~~series~~ different varieties with preliminary information on FOB prices monthly availabilities, etc.

I anticipate expressions of appreciation for the courtesy you may extend to contents of this letter.

Sincerely yours,

ccHon. Colonial Secretary ✓  
ccAlginate Industries Ltd., London

wfm/ia

Correspondents in:  
London Hong Kong Los Angeles San Francisco New York Montevideo Porto Alegre



468

# CONFIDENTIAL

## EXECUTIVE COUNCIL

No. 40/72

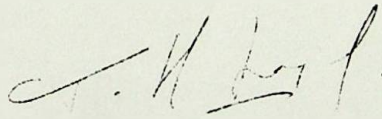
Agreement with Alginate Industries Limited

Memorandum by the Colonial Secretary

Members will recollect that when the draft agreement with Alginate Industries Limited was discussed in Executive Council on 21st December 1971, it was considered satisfactory apart from the provisions relating to the licence. It was felt that the Company should be compelled to take out a licence immediately the Agreement was signed.

Alginate Industries have now agreed to this, and this stipulation has been included in the new draft of the agreement which is otherwise unaltered. A copy of the draft agreement is attached. This has been thoroughly vetted by the Colony's Legal Adviser, Sir Hubert Plaxman.

The Council is accordingly invited to advise that agreement be concluded with Alginate Industries Limited on the terms of the attached draft.

  
(T. E. Layng)  
COLONIAL SECRETARY

File Ref: 0004/IV  
13th July 1972

HRT.

468A

MINUTES OF EXECUTIVE COUNCIL MEETING NO. 4/72  
HELD ON WEDNESDAY 26TH JULY 1972.

0004/IV

11. AGREEMENT WITH ALGINATE INDUSTRIES LIMITED  
(Memo 40/72) 468

Members examined the new draft Agreement between the Colonial Government and Alginate Industries Limited which embodied certain modifications to the earlier draft, to take cognizance of those matters which Council had suggested should be incorporated. It was noted that the draft agreement now before Council had been thoroughly vetted by Sir Hubert Flaxman, the Colony's Legal Adviser.

Council advised that an agreement be concluded with Alginate Industries Limited in the terms of the draft circulated with Memorandum No. 40/72. 468

*Bouring*  
CLERK TO COUNCILS



DECODE.

TELEGRAM SENT.

From GOVERNOR to SECRETARY OF STATE

Despatched: 27.7.72 Time: 1130 Received: Time:

No. 212

Reference Kinnears letter HWF 7/2 of 24th May Alginates. Draft  
agreed. FCO please repeat Buenos Aires

LEWIS

PL: HT



Foreign and Commonwealth Office  
London SW1

Telephone 01-

481

T H Layng Esq  
Colonial Secretary  
Port Stanley  
FALKLAND ISLANDS

Your reference

Our reference     HWF 7/2

Date     8 August 1972

*Dear Tom,*

ALGINATE INDUSTRIES LIMITED

1. Further to your telegram 202A of 27 July, I now enclose two copies each of the engrossments of the Agreement and Licence covering AIL's proposed operations in the Falkland Islands.
2. Could you please ask the Governor to sign, seal and date all the copies (the date in each case being entered in the space at the top of the first page). Your counter signature is, of course, required. One copy of each should be retained by you and the others returned here for handing to Alginates.
3. I am afraid the documents do not reflect the recent award of the CMG to the Governor. I failed to draw Alginates' attention to this until engrossing was complete. Please ask the Governor to accept my apologies.

*Yours ever  
David*

D G F Hall  
West Indian and  
Atlantic Department

ENC



Y. F.

documents at Face

For signature pl.

19/8

R. S. L.

We shall and will you please check in every  
detail the final Agreement against the draft at  
pp 468-469. It has been checked by the G. C. O.  
but they could have made a check.

R. S. L.  
22/8

P. S. / Should the meeting be done at the time I suggest?

3. E.

482

1. The following are minor slips repeated from p. 469 - 479:

Agreement.

- (1) Page 4. ~~Clause 8 line 1: "AIL" not "AII".~~ ✓
- (2) Page 5. "Dependencies" not "dependencies". ✓✓
- (3) Page 5. "Commonwealth Affairs" not "Commonwealth affairs". ✓
- (4) Page 7. Clause 1(b) line 3: ";" not ".". ✓
- (5) Page 9. Clause 7 line 4: "Stanley" not "Port Stanley". ✓
- (6) Page 11. Clause 9(a): insert ";" at end thereof. ✓
- (7) Page 12. Clause 12 line 14: "within" not "with". ✓
- (8) Page 12. "Dependencies" not "dependencies". ✓
- (9) Page 12. "Commonwealth Affairs" not "Commonwealth affairs". ✓

Licence.

- (10) Page 2. (5) above.
- (11) Page 6. (7) above.
- (12) Page 7. Clause 12 line 11: "within" not "with".
- (13) Page 7. (8) above.
- (14) Page 7. (9) above.

- 2.

Agreement.

Page 9. Place to be entered in line 5. ✓

Licence.

Page 1. Para. (B): date to be entered in line 1. ✓

Page 6. Clause 12: place to be entered in line 5. ✓

3. The representatives of AIL have signed the Schedule to the Agreement which merely illustrates the agreed terms of the licence to be granted. Provision should have been made immediately following page 5 of the Agreement for the signatures of the parties.

4. The documents should be sealed before Your Excellency signs.

H. B.

23.VIII.72.



UNCLASSIFIED

0004/IV

25 August 1972

D G F Hall Esq MBE  
West Indian & Atlantic Department  
FCO, London SW1

ALGINATE INDUSTRIES LTD

1. Would you please refer to your letter HWF 7/2 of 8 August addressed to Tom Layng on the agreement and licence covering Alginat's proposed operations in the Islands.
2. The Registrar of the Supreme Court and I have been through the agreement and licence with a toothcomb and there are a number of minor slips which are not all that important but, in addition, there appears to be a major error in that the representatives of AIL have signed the Schedule ~~of~~ the agreement and not the agreement itself; it appears to us that provision should have been made immediately following page 5 of the agreement for the signatures of the parties. I would be grateful if you would check with the Legal Advisers.
3. If we have to amend the agreement and licence because of the above we might also look at the following small points:

Agreement

- |         |   |
|---------|---|
| Page 5  | "Dependencies" not "dependencies".<br>"Commonwealth Affairs" not "Commonwealth affairs".  |
| Page 7  | Clause 1(b) line 3: ";" not ".".  |
| Page 9  | Clause 7 line 4: "Stanley" not "Port Stanley".  |
| Page 11 | Clause 9(a): insert ";" at end thereof.   |
| Page 12 | Clause 12 line 14: "within" not "with".<br>"Dependencies" not "dependencies".<br>"Commonwealth Affairs" not "Commonwealth affairs". |

/Licence

626

Licence

Similar amendements to the above in the Schedule to the agreement will have to be made in the licence.

E G LEWIS



DATED

1972

HIS EXCELLENCY THE GOVERNOR  
OF THE COLONY OF THE  
FALKLAND ISLANDS

- and -

ALGINATE INDUSTRIES LIMITED

---

AGREEMENT FOR LICENCE

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- (b) "kelp" shall have the meaning ascribed to it by section 2 of the Ordinance;
- (c) "the Licence" shall mean a licence pursuant to the Ordinance to be applied for by AIL and granted by the Governor in accordance with the terms of clause 2 hereof;
- (d) "the term of this Agreement" shall mean the term from the date hereof to the expiring of the Licence;
- (e) "year" shall mean a calendar year.

- 2. FORTHWITH on the execution of this Agreement AIL will make application for and the Governor will grant the Licence in the terms of the document set out in the Schedule hereto permitting AIL to harvest kelp for sale, processing and export and to export kelp for the period and on the terms and conditions contained therein.
- 3. (a) AT any time during the term of this Agreement AIL shall have the right to apply for and the Governor may grant on such terms as may be agreed between AIL and the Governor further licences pursuant to the Ordinance which shall be exclusive to AIL and which may be in respect of kelp in any specified part or parts of the Colony in addition to or in substitution for the initial concession area as defined in the Licence.  
(b) If during the term of this Agreement any application is made by any person (other than a person seeking to exercise his customary right to harvest kelp in small quantities for agricultural and other purposes) for any licence to harvest, export or otherwise deal in or with kelp for any purpose in or from any part of the Colony in respect of which AIL does not at that time hold a licence pursuant to the Ordinance, the Governor shall before considering such application first

offer to AIL an exclusive licence in respect of that part of the Colony for which such application is made and AIL shall have the right to accept such licence on such terms as may be agreed between AIL and the Governor, and if AIL does not accept such a licence a licence may within a reasonable time thereafter be granted to the original applicant by the Governor.

(c) Insofar as the terms of further licences granted to or accepted by AIL pursuant to paragraph (a) and (b) of this clause do not conflict with the terms hereof, the terms of this Agreement shall apply in all respect to such licences as they apply to the Licence to be granted hereunder.

4. (a) THE Governor agrees that AIL shall be entitled to draw such water as it requires from the Murrell River or from any other source of supply convenient for AIL's operations in the Colony as may be agreed between the parties hereto and that no tariff or charge whatsoever shall be levied on AIL for any water used by it. The Governor further agrees that he will give all necessary consents and approvals which may be necessary under the Stanley Water Supply Regulations to enable AIL to achieve a satisfactory supply of water to the site of its operations and he will forthwith issue or procure the issue to AIL of water extraction grants (which may be expressed to be subject to grants already made in respect of the particular source of supply) in respect of its entitlement to draw water as aforesaid.

(b) AIL shall be entitled to lay a water supply pipe from the water supply source to the Camber Site on or under the surface of the ground provided that in the installation of such supply pipe sufficient crossing places, to be determined by agreement between the parties,



are provided for. The Governor agrees that no rent or charges of any kind shall be payable by AIL in respect of land in his possession or control which is occupied by the supply pipe and further agrees that in respect of such land he will, if so requested by AIL, enter into and execute or procure the execution of such grants licences easements wayleaves or assurances as may be required by AIL to enable it to show good right and title to the use thereof.

5. THE Governor UNDERTAKES that during the term of this Agreement :-
  - (a) No action shall be taken which would render any obligations of or provisions applicable to AIL in respect of port dues or harbour rights more onerous than those provisions applicable to or obligations of other commercial undertakings in the Colony;
  - (b) No tax or impost shall be levied on AIL which has or may have a discriminatory effect upon the operations of AIL in the Colony.
6. THE Governor AGREES that he will do all in his power to assist AIL in conducting its operations successfully.
7. THE Governor (subject to the provisions of the Aliens Ordinance) will grant or procure to be granted all necessary passes permits authorisations and licences which may be required by AIL to permit the free movement of personnel and equipment to and from and within the Colony and to permit the employment of such labour as may be required for its operations.
8. ALL harvesting research exploitation and

processing operations carried out by AIL pursuant to the Agreement and the Licence shall be under the exclusive control and management of AIL.

9. ANY notice, consent or request under this Agreement to be given or made by either party to the other shall be given or made by prepaid post or by telegram or cable addressed in the case of AIL to its registered office and in the case of the Governor to (or in either case to such other address as shall have been notified in writing by either party to the other) and any such notice, consent or request if sent by post shall be deemed to have been served on the day on which in the normal course of transmission it would be delivered at its destination and if sent by telegram or cable within twenty four hours after it was despatched.
10. THIS Agreement shall be deemed to have been made in the Falkland Islands and the construction validity and performance of this Agreement shall be governed in all respects by the law of the Falkland Islands.
11. THIS Agreement cancels and replaces all prior or contemporaneous agreements whether verbal or written between the parties hereto.

I N W I T N E S S whereof His Excellency Ernest Gordon Lewis Officer of the Most Excellent Order of the British Empire, Governor and Commander-in-Chief in and over the Colony of the Falkland Islands and its dependencies hath with the special sanction of the Secretary of State for Foreign and Commonwealth affairs hereunto set his hand for and on behalf of Her Majesty and caused the Public Seal of the said Colony to be hereunto affixed, at Stanley in the said Colony and AIL has caused its Common Seal to be hereunto affixed the day and year first above written.



THE SCHEDULE above referred to

T H I S     L I C E N C E     is made the     day  
of     One thou  
nine hundred and seventy two     B E T W E E N     HIS EXCEL  
THE GOVERNOR OF THE COLONY OF THE FALKLAND ISLANDS  
(hereinafter called "the Governor") of the one part and  
ALGINATE INDUSTRIES LIMITED     a company incorporated in  
England whose registered office is at 22 Henrietta Stre  
London, WC2E 8NB (hereinafter called "AIL") of the othe  
part.

W H E R E A S :-

(A) By the Control of Kelp Ordinance 1970 (as amended) ("the Ordinance") no person may harvest any kelp for sale, processing or export, or export any kelp, save with a licence granted by the Governor, and save on such terms and conditions as the Governor and the licensee may agree.

(B) By an Agreement dated the \_\_\_\_\_ day of \_\_\_\_\_ 1972 and made between the parties hereto the Governor and AIL have agreed that AIL shall apply for and the Governor shall grant a licence pursuant to the Ordinance

(C) Such application having been made by AIL the Governor now grants a licence pursuant to the Ordinance on the terms and conditions hereinafter appearing which terms conditions have been approved by the Legislative Council of the Colony and are hereby affirmed by the Governor for and on behalf of the Colony in exercise of the powers vested in him.

N O W   I T   I S   H E R E B Y   A G R E E D   a s   F O L L O W S   :-

1. IN this Licence the following words and expressions shall save where the context otherwise requires have the following meanings :-
- (a) "kelp" shall have the meaning ascribed to it by

section 2 of the Ordinance;

- (b) "the said term" shall mean the term of fifty years from the date hereof or such other term as may hereafter be agreed in writing between the parties.
- (c) "year" shall mean a calendar year;
- (d) "dried milled kelp" shall mean kelp in the condition in which it is packed and placed on board ship for shipment from the Colony;
- (e) "the concession area" shall mean all that part of the foreshore and territorial waters of the Colony bounded :-
  - (i) on the North West by the line joining point A at 51 degrees 32 minutes South 57 degrees 41 minutes West and point B at 52 degrees 06 minutes South 60 degrees 11 minutes West;
  - (ii) on the East by the line of longitude 57 degrees 41 minutes West; and
  - (iii) on the West by the line of longitude 60 degrees 11 minutes West.

2. THE Governor HEREBY GRANTS to AIL and AIL HEREBY ACCEPTS a licence pursuant to the Ordinance to harvest kelp for sale, processing and export and to export kelp for the said term at an annual fee of one pound sterling the first such fee to be paid on the date hereof and thereafter paid annually on each anniversary of the date hereof.

3. THIS Licence shall only extend to the harvesting, collecting or getting of kelp by AIL within the concession area.

4. (a) SUBJECT as provided in this clause, this Licence shall be exclusive to AIL and the Governor undertakes that no licence shall be granted during the said term



to any other person in respect of kelp in the concession area.

(b) The Governor reserves the right, at the expiry of six months notice in writing to AIL, to revoke the exclusivity of this Licence:-

(i) if AIL shall fail to achieve in the two consecutive years immediately following the fifth anniversary of date hereof an average production per annum of 4000 metric tons of dried milled kelp;

(ii) if AIL shall fail to achieve in the two consecutive years immediately following the tenth anniversary of date hereof an average production per annum of 8,000 metric tons of dried milled kelp.

5. IN CONSIDERATION of the Licence hereby granted to by the Governor AIL hereby agrees to pay to the Governor certain further fees as specified in this clause :-

(a) AIL shall pay to the Governor a fee of £1.90 sterling for every metric ton of dried milled kelp produced by provided that the amount payable by AIL in respect of one year shall not be less than £2,500;

(b) If in any year AIL produces an amount of dried milled kelp in excess of 8,000 metric tons AIL shall pay an additional fee of 20p sterling for every metric ton produced in excess of 8,000;

(c) (i) The fee specified in (a) above shall be paid by AIL in respect of each shipment of dried milled kelp from the Colony and calculated according to the tonnage of such shipment and shall be payable within thirty days from the date of each such shipment;

(ii) If at the end of any year the total of the fees paid by AIL during that year pursuant to (i) above is less than £2,500, AIL shall pay the amount

of the difference on or before the 1st February in the following year;

(iii) If at the end of any year when the production of dried milled kelp for the year is known an additional fee as specified in (b) above is shown to be payable, the additional fee in respect of that year shall be paid by AIL on or before the 1st February in the following year.

(d) The fees provided for under the terms of this Licence shall only be payable as from and in respect of the year in which AIL produces an amount of dried milled kelp in excess of 1000 metric tons or during and in respect of the year 1974 whichever is the earlier,

(e) If any processing of dried milled kelp is done in the Colony by AIL, the amount of fee payable to the Governor shall be calculated according to the weight of dried milled kelp used in such processing.

6. (a) FORTHWITH after the despatch of each shipment of dried milled kelp from the Colony AIL shall prepare and produce to the Governor a return in which AIL shall certify the tonnage of the shipment in question. The certificate so given by AIL shall in the absence of bad faith be a final and conclusive statement of the tonnage shipped in each case;

(b) On receipt of the return specified in sub-clause (a) hereof the Governor shall calculate the fee (if any) payable in respect of the tonnage thereby certified and shall serve on AIL a demand for the amount of the fee so calculated.

7. THE fees payable by AIL pursuant to this Licence shall be paid in sterling and shall be paid to the Governor (or to such person as he may nominate for the purpose) at Port Stanley against a demand served



on ALL in accordance with the provisions of Clause 6.

8. (a) THE fees ("the initial fees") specified in clause 5 hereof shall remain fixed for five years from and including the year in respect of which a fee is first payable to the Governor pursuant to clause 5. The fees ("the revised fees") payable in respect of the next following period of five years and in respect of each successive period of five years thereafter shall be calculated at the beginning of each such period in accordance with the following provisions of this clause and the revised fees shall remain fixed throughout each such period;
- (b) The revised fees for each period of five years will bear the same relation to the initial fees as the average United Kingdom Wholesale Price Index numbers of output (Chemicals and Allied Industries - total sales) issued by the Statistics Division of the Department of Trade and Industry for the year ending on the 30th June prior to the beginning of each such period bear to the same numbers of output issued for the year ending on the 30th June prior to the year in respect of which a fee is first payable to the Governor pursuant to clause 5 hereof (but subject to any adjustment necessary to take account of any change in the rate of exchange between the currency of the Colony and the currency of the United Kingdom);
- (c) If the Wholesale Price Index numbers of output specified above cease to be issued or are issued at any relevant time in a substantially different form such that they cannot reasonably be related to earlier relevant numbers of output and if thereafter a dispute arises between the parties as to the basis

on which the revised fees should be calculated, such dispute shall be referred for arbitration to a single arbitrator by the President for the time being of the Institute of Arbitrators, whose decision shall be final and binding on the parties hereto.

9. THE Governor UNDERTAKES that during the term of this Licence:

(a) No action shall be taken which would render any obligations of or provisions applicable to AIL in respect of port dues or harbour rights more onerous than those provisions applicable to or obligations of other commercial undertakings in the Colony

(b) No tax or impost shall be levied on AIL which has or may have a discriminatory effect upon the operations of AIL in the Colony.

10. (a) If the harvesting, collecting and processing of kelp authorised by this Licence is interrupted or delayed as a result of an event of force majeure, the date at which the Governor may revoke the exclusivity of this Licence shall be postponed accordingly, subject to AIL notifying its request for the benefit of force majeure to the Governor.

(b) An event of force majeure shall mean the happening of any event beyond the reasonable control of AIL including, but not limited to, acts of God or a public enemy, labour disputes, fires, interference by civil or military authorities or compliance with regulations or other rules of Governmental authorities.

11. AIL may substitute in its place any of its subsidiary companies which are incorporated in



the United Kingdom the Channel Islands or any of the Crown Colonies to exercise any of its rights and obligations under this Licence.

12. ANY notice, consent or request under this Licence to be given or made by either party to the other shall be given or made by prepaid post or by telegram or cable addressed in the case of AIL to its registered office and in the case of the Governor to (or in either case to such other address as shall have been notified in writing by either party to the other) and any such notice, consent or request if sent by post shall be deemed to have been served on the day on which in the normal course of transmission it would be delivered at its destination and if sent by telegram or cable with 24 hours after it was despatched.

13. THIS Licence shall be deemed to have been made in the Falkland Islands and the construction validity and performance of this Agreement shall be governed in all respects by the law of the Falkland Islands.

I N W I T N E S S      whereof His Excellency Ernest Gordon Lewis Officer of the Most Excellent Order of the British Empire, Governor and Commander-in-Chief in and over the Colony of the Falkland Islands and its dependencies hath with the special sanction of the Secretary of State for Foreign and Commonwealth affairs hereunto set his hand for and on behalf of Her Majesty and caused the Public Seal of the said Colony to be hereunto affixed, at Stanley in the said Colony and AIL has caused

its Common Seal to be hereunto affixed the day  
and year first above written.

Signed .....  
Governor and Commander-in-Chief

by His Excellency's Command

.....  
Colonial Secretary



THE COMMON SEAL of ALGINATE )  
INDUSTRIES LIMITED was )  
hereunto affixed in the )  
presence of :- )

Director

Secretary



.....  
.....



DATED

1972

HIS EXCELLENCY THE GOVERNOR  
OF THE COLONY OF THE FALKLAND  
ISLANDS

- and -

ALGINATE INDUSTRIES LIMITED

---

L I C E N C E

---





years from the date hereof or such other term as may hereafter be agreed in writing between the parties.

- (c) "year" shall mean a calendar year;
- (d) "dried milled kelp" shall mean kelp in the condition in which it is packed and placed on board ship for shipment from the Colony;
- (e) "the concession area" shall mean all that part of the foreshore and territorial waters of the Colony bounded :-
  - (i) on the North West by the line joining point A at 51 degrees 32 minutes South 57 degrees 41 minutes West and point B at 52 degrees 06 minutes South 60 degrees 11 minutes West;
  - (ii) on the East by the line of longitude 57 degrees 41 minutes West; and
  - (iii) on the West by the line of longitude 60 degrees 11 minutes West. ✓

2. THE Governor HEREBY GRANTS to AIL and AIL HEREBY ACCEPTS a licence pursuant to the Ordinance to harvest kelp for sale, processing and export and to export kelp for the said term at an annual fee of one pound sterling the first such fee to be paid on the date hereof and thereafter paid annually on each anniversary of the date hereof.
3. THIS Licence shall only extend to the harvesting, collecting or getting of kelp by AIL within the concession area.
4. (a) SUBJECT as provided in this clause, this Licence shall be exclusive to AIL and the Governor undertakes that no licence shall be granted during the said term to any other person in respect of kelp in the concession area.
  - (b) The Governor reserves the right, at the expiry of

six months notice in writing to AIL, to revoke the exclusivity of this Licence:-

- (i) if AIL shall fail to achieve in the two consecutive years immediately following the fifth anniversary of the date hereof an average production per annum of 4000 metric tons of dried milled kelp;
- (ii) if AIL shall fail to achieve in the two consecutive years immediately following the tenth anniversary of the date hereof an average production per annum of 8,000 metric tons of dried milled kelp.

5. IN CONSIDERATION of the Licence hereby granted to AIL by the Governor AIL hereby agrees to pay to the Governor certain further fees as specified in this clause :-

- (a) AIL shall pay to the Governor a fee of £1.90 sterling for every metric ton of dried milled kelp produced by AIL provided that the amount payable by AIL in respect of any one year shall not be less than £2,500;
- (b) If in any year AIL produces an amount of dried milled kelp in excess of 8,000 metric tons AIL shall pay an additional fee of 20p sterling for every metric ton produced in excess of 8,000;
- (c) (i) The fee specified in (a) above shall be paid by AIL in respect of each shipment of dried milled kelp from the Colony and calculated according to the tonnage of such shipment and shall be payable within thirty days from the date of each such shipment;
- (ii) If at the end of any year the total of the fees paid by AIL during that year pursuant to (i) above is less than £2,500, AIL shall pay the amount of the difference on or before the 1st February in the following year;
- (iii) If at the end of any year when the production of dried milled kelp for the year is



known an additional fee as specified in (b) above is shown to be payable, the additional fee in respect of that year shall be paid by AIL on or before the 1st February in the following year.

(d) The fees provided for under the terms of this Licence shall only be payable as from and in respect of the year in which AIL produces an amount of dried milled kelp in excess of 1000 metric tons or during and in respect of the year 1974 whichever is the earlier.

(e) If any processing of dried milled kelp is done in the Colony by AIL, the amount of fee payable to the Governor shall be calculated according to the weight of dried milled kelp used in such processing.

6. (a) FORTHWITH after the despatch of each shipment of dried milled kelp from the Colony AIL shall prepare and produce to the Governor a return in which AIL shall certify the tonnage of the shipment in question. The certificate so given by AIL shall in the absence of bad faith be a final and conclusive statement of the tonnage shipped in each case;

(b) On receipt of the return specified in sub-clause (a) hereof the Governor shall calculate the fee (if any) payable in respect of the tonnage thereby certified and shall serve on AIL a demand for the amount of the fee so calculated.

7. THE fees payable by AIL pursuant to this Licence shall be paid in sterling and shall be paid to the Governor (or to such person as he may nominate for the purpose) at Port Stanley against a demand served on AIL in accordance with the provisions of Clause 6.

8. (a) THE fees ("the initial fees") specified in clause 5 hereof shall remain fixed for five years from and includi

the year in respect of which a fee is first payable to the Governor pursuant to clause 5. The fees ("the revised fees") payable in respect of the next following period of five years and in respect of each successive period of five years thereafter shall be calculated at the beginning of each such period in accordance with the following provisions of this clause and the revised fees shall remain fixed throughout each such period;

(b) The revised fees for each period of five years will bear the same relation to the initial fees as the average United Kingdom Wholesale Price Index numbers of output (Chemicals and Allied Industries - total sales) issued by the Statistics Division of the Department of Trade and Industry for the year ending on the 30th June prior to the beginning of each such period bear to the same numbers of output issued for the year ending on the 30th June prior to the year in respect of which a fee is first payable to the Governor pursuant to clause 5 hereof (but subject to any adjustment necessary to take account of any change in the rate of exchange between the currency of the Colony and the currency of the United Kingdom);

(c) If the Wholesale Price Index numbers of output specified above cease to be issued or are issued at any relevant time in a substantially different form such that they cannot reasonably be related to earlier relevant numbers of output and if thereafter a dispute arises between the parties as to the basis on which the revised fees should be calculated, such dispute shall be referred for arbitration to a single arbitrator by the President for the time being of the Institute of Arbitrators, whose decision shall be final and binding on the parties hereto.

9. THE Governor UNDERTAKES that during the term of this Licence:



- (a) No action shall be taken which would render any obligations of or provisions applicable to AIL in respect of port dues or harbour rights more onerous than those provisions applicable to or obligations of other commercial undertakings in the Colony
- (b) No tax or impost shall be levied on AIL which has or may have a discriminatory effect upon the operations of AIL in the Colony.
10. (a) If the harvesting, collecting and processing of kelp authorised by this Licence is interrupted or delayed as a result of an event of force majeure, the date at which the Governor may revoke the exclusivity of this Licence shall be postponed accordingly, subject to AIL notifying its request for the benefit of force majeure to the Governor.
- (b) An event of force majeure shall mean the happening of any event beyond the reasonable control of AIL including, but not limited to, acts of God or a public enemy, labour disputes, fires, interference by civil or military authorities or compliance with regulations or other rules of Governmental authorities.
11. AIL may substitute in its place any of its subsidiary companies which are incorporated in the United Kingdom the Channel Islands or any of the Crown Colonies to exercise any of its rights and obligations under this Licence.
12. ANY notice, consent or request under this Licence to be given or made by either party to the other shall be given or made by prepaid post or by telegram or cable addressed in the case of AIL to its registered office and in the case of the Governor to (or in either case to such other address as shall have been notified in writing by either party to the other) and any

such notice, consent or request if sent by post shall be deemed to have been served on the day on which in the normal course of transmission it would be delivered at its destination and if sent by telegram or cable with 24 hours after it was despatched.

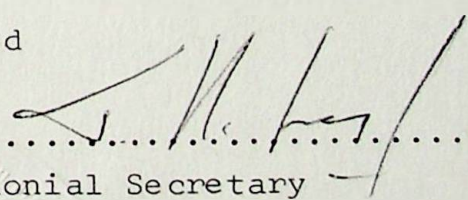
13. THIS Licence shall be deemed to have been made in the Falkland Islands and the construction validity and performance of this Agreement shall be governed in all respects by the law of the Falkland Islands.

I N W I T N E S S    whereof His Excellency Ernest Gordon Lewis Officer of the Most Excellent Order of the British Empire, Governor and Commander-in-Chief in and over the Colony of the Falkland Islands and its dependencies hath with the special sanction of the Secretary of State for Foreign and Commonwealth affairs hereunto set his hand for and on behalf of Her Majesty and caused the Public Seal of the said Colony to be hereunto affixed, at Stanley in the said Colony and AIL has caused its Common Seal to be hereunto affixed the day and year first above written.

Signed .....  .....

Governor and Commander-in-Chief

by His Excellency's Command

.....  .....  
Colonial Secretary

THE COMMON SEAL of ALGINATE )  
INDUSTRIES LIMITED was hereunto)  
affixed in the presence of :- )

Director

Secretary



485

gef 11/9

RESTRICTED 081420Z

frm FCO to Falkland Islands telno 175 of 8 September.

ALGINATE INDUSTRIES: Your letter of 25 August to Hall.

1. Legal Advisers concur. We have gone back to AIL and will hasten new engrossments.

# ALGINATE INDUSTRIES

L I M I T E D

BARCALDINE, BY CONNELL, ARGYLLSHIRE.

## DIRECTORS:

W. R. MERTON, Chairman.  
R. R. MERTON  
R. CAMPBELL-PRESTON, } Managing  
O.B.E., M.C. } Directors  
A. C. W. NORMAN, O.B.E.  
R. H. McDOWELL  
D. I. BANKES  
THE RT. HON. THE VISCOUNT STUART  
OF FIDHORN, P.C., C.H., M.V.O., M.C.  
F. L. G. GRIFFITH-JONES



17th August, 1972

## TELEPHONE:

LEDAIG 213  
LEDAIG 278

## HEAD OFFICE

ALGINATE INDUSTRIES LTD.

22, HENRIETTA STREET  
LONDON, W.C. 2

T. Royans Esq.,  
Supt. Public Works,  
STANLEY.  
Falkland Islands.

11 SEP 1972

Dear Tom,

We will be installing extra equipment in our Pilot Plant premises in order to make some final and more complex experiments prior to the commencement of the production phase in the company's Falkland Island programme.

2. This will require a more abundant water supply in order to carry out these most essential trials and we will need an independent one-inch supply pipe from the main. At present we are working through a half-inch supply from the "FIC Bottling Plant" via a 400 gallon storage tank as per agreement with the P.W.D. with a maximum of 300 gallons per day.

3. A meter will be supplied by us for assessing consumption. There will not be a constant need of anything much in excess of this figure, but there will be days when 2,000 gallons will be required.

4. In the event of any shortage of water, the P.W.D. may rely on our ready co-operation in drawing off our needed supplies at any stipulated time should the need arise.

5. ~~Would~~ it be possible to put this in hand fairly soon? The line would be needed to terminate near the door of the building about three feet before arriving at the concrete apron, or if easier and no obstacle is encountered through the Bottling Plant and arriving just short of our switch panel.

Your esteemed attention to this will be greatly appreciated. Trusting that this finds yourself and family all well.

Yours sincerely,

D. F. Gooch.



1968

THE QUEEN'S AWARD TO INDUSTRY



MEMORANDUM

It is requested that, in any reference to this memorandum, the above number and date should be quoted.

9th. September, 1972.

To: Colonial Secretary.From: Superintendent of WorksSTANLEY:

Stanley, Falkland Islands.

**11 SEP 1972**SUBJECT:- Alginates (Water Supply).

With reference to the letter, attached, 17th. August, from Mr. Gooch of Alginates.

The request for an increased supply has been anticipated since 1970 discussions. (see your Ref: 0004/III of 8th and 18th August, 1970.) I can simplify past negotiations in relation to demand on supply, by now adding 'the supply, as it stands today, is adequate to cope with the request of another 1,700 gallons per day, particularly as it will not be a daily occurrence'. May I draw your attention to your Memo 0004/16/69, 10th March, 1969. As a result of discussion, held at that time, Mr. Pery estimated the requirements of water, to increase from the pilot stage days of 1970, 300 gallons per day to 10,000 per hour in 1971/72: from 1972 to 1975 22,000 g.p.h., finally, 1975 to 1980, 70,000 g.p.h.; all of which would have to be obtained by independent means from the Murrell River, but the pilot plant, F.I. Government supply, up to 300 gallons per day. As the pilot plant is F.I.C. property, and it is an original supply covered by rates paid into Town Council, F.I.C. pay for it, probably offset by the lease agreement with Alginates.

2. The request for supply in excess of 300 gallons however does constitute a change in policy: it must now be metered and charged for at their own expense, and payable, I would suggest, into either P.W.D. or the Treasury. In a previous agreement, way back in 1947, the Kelp Company agreed to pay the commercial rate prevailing in Stanley, the agreement was never implemented, but it remains the only way of charging, but whether you consider the present commercial rate of 12p per ton (as charged to shipping etc.) as adequate will be another thing.

3. I must rule out Mr. Gooch's alternative of the supply through the bottling plant. From enquiries made today through F.I.C. Works, and Stores Departments, the request, requiring a one inch supply, the pipe crossing under the road to the plant is only  $\frac{1}{2}$ " and I would venture to say, in a poor condition by now. The nearest point to which it could be tapped is 15 meters from the F.I.C. boundary, a normal Government commitment, provision in P.W.R. XVI/3, installations, the capacity, or diameter as determined usually by the S.P.W., in this particular case I would recommend 2" diameter, in order to avoid trenching through a concrete road more than once in the same area, (there cannot be a great deal of life remaining in the existing one). Estimated cost for excavation, pipelaying to the boundary stop-cock, backfilling and make good concrete = £80.

4. Para. 5 of the request 'termination near the door' is irrelevant. From the boundary stop-cock it would entirely be their own responsibility, or joint responsibility of F.I.C. and Alginates, after receiving approval through application to the Town Council. As a point of interest, the distance entails a further 16 meters.

5. SUMMARY:

For P.W.D. this creates no formidable task, and there is adequate financial provision, it is a supply line up to the boundary and not a service line, the latter being their own responsibility. With your approval, the work could be undertaken without delay and be complete in approximately one week; occasionally traffic would be reduced to single lane during that period. The main is conveniently situated whereby only the West Store would be affected for an hour or so, while connection takes place.

*T. W. Lyons*

Superintendent of Works.



488

NNNN

ZCZC ATS163 C NOW809X LHC057 FCW016

FKLX BY GBLH 040

S LONDONLH 40/36 13 2120 BG

ETATPRIORITE

GOVERNOR

FALKLANDISLANDS

FM FCO 131815Z UNCLASSIFIED TO ROUTINE GOVERNOR FALKLAND  
ISLANDS TELEGRAM NUMBER 180 OF 13 SEPTEMBER YOUR LETTER  
0004/IV OF 25 AUGUST TO HALL ALGINATE INDUSTRIES LEGAL ADVISERS  
CONFIRM ALGINATES HAVE SIGNED CORRECTLY

DOUGLAS-HOME

COL 131815Z 13 180 0004/IV 25

NNNN



GOVERNMENT TELEGRAPH SERVICE

FALKLAND ISLANDS

SENT

WAP 15142—821 584578/790938 500 pds 12/68 Grp.782

Number	Office of Origin	Words	Handed in at	Date
To				
ETAT PRIORITE PRODRONS LONDON SW1				a/c H.O.

Telno 269 of 19 September.

ALGINATE INDUSTRIES LTD: Your telno 180.

1. Does this advice overtake that given in your telno 175?

LEWIS

Time

T

ZCZC ATS253 LHZ235 FCW005

FKLX BY GBLH 062

S LONDONLH 62/61 20 1600 BG

ETATPRIORITE

GOVERNOR

FALKLAND ISLANDS

FM FCO 201115Z UNCLASSIFIED TO ROUTINE GOVERNOR FALKLAND  
ISLANDS TELNO 187 OF 20/9

YOUR TELEGRAM 269 CONTRARY TO THEIR INITIAL VIEW LEGAL  
ADVISERS NOW CONSIDER ALGINATES HAVE SIGNED CORRECTLY NEW  
ENGROSSMENTS NOT THEREFORE REQUIRED IF YOU WISH TO AMEND YOUR  
COPY OF THE AGREEMENT IN ACCORDANCE WITH YOUR LETTER OF 25  
AUGUST TO HALL ALGINATES HAVE NO OBJECTION

DOUGLASHOME

COL 201115Z 187 20/9 269 25

NNNN



UNCLASSIFIED

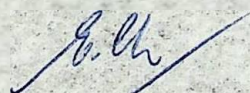
COM/29/20

20 September 1972

D G F Hall Esq MBE  
West Indian & Atlantic Department  
FCO, London SW1

ALGINATE INDUSTRIES LTD

1. With reference to my letter 0004/IV of 25 August and subsequent telegraphic exchanges resting with your telno 187, I return herewith the Agreement and Licence duly signed and engrossed.



E G LEWIS

ENCS 2

29th September

72

To: Superintendent, Public Works,

Stanley.

From: Colonial Secretary

Alginates Water Supply

487

Your memorandum PWD 692 of 9th September refers.

The extensions proposed by Mr. Gooch are authorised.

(T. H. Layng)  
COLONIAL SECRETARY

HRT.



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**Foreign and Commonwealth Office**  
London SW1

Telephone 01-

HE Mr E G Lewis CMG OBE  
Governor & Commander in Chief  
Falkland Islands

Your reference

Our reference HWF 7/2

Date 11 October 1972

*Dear Governor*

ALGINATE INDUSTRIES LIMITED

1. Thank you for your letter of 20 September enclosing the duly signed and witnessed Agreement and Licence which I have passed to Alginates.

2. I am sorry for the delay caused by the conflicting advice we received when examining the points raised in your letter of 25 August, but you will appreciate that this was not of our making.

*Yours ever*  
*D G F Hall*

D G F Hall  
West Indian and  
Atlantic Department

# ALGINATE INDUSTRIES

L I M I T E D

## DIRECTORS:

W. R. MERTON, Chairman.  
R. R. MERTON,  
R. CAMPBELL-PRESTON

Managing  
Directors

A. C. W. NORMAN, O.B.E.  
R. H. McDOWELL,  
D. L. BANKES,  
F. L. G. GRIFFITH JONES,  
M. H. C. PERY.

22, HENRIETTA STREET, LONDON, WC2E 8NB



## TELEPHONE:

01-836 0451/4.  
01-836 0142/3.

## TELEGRAMS:

'ALGINATES.'  
LONDON. WC2'

## CABLES:

'ALGINATES. LONDON. WC2'

BENTLEY'S SECOND PHRASE.

TELEX: 23815.

16th October, 1972

*B/A to me  
for AIL*  
  
*Dear Mr. Lewis,*

We were delighted to receive back the signed copy of the Agreement and Licence which has just arrived at this office.

In these circumstances I think that it is time for me to give you a brief report on how our plans are progressing, and to expand a little on the information which we were very pleased to be able to give to Mr. T. Layng during the course of a brief visit to this office, which he will doubtless have passed on to you.

In the first place our pilot plant work to date in the Falkland Islands has taught us that some of the ideas which we had so far as plant and processing are concerned were on the wrong lines, with the result that we were forced to consider alternative ways of approaching the problem.

In the event we have come up with a very much better plan based on a fairly recent technical breakthrough which will enable us to shortcut the weed drying and milling operations and to carry out the first stages of alginate manufacture in the Falklands. We are in the process of developing this project in Scotland through some of the inevitable stages between pilot and full scale operation before applying it in the Falkland Islands.

continued....



THE QUEEN'S AWARD TO INDUSTRY



In these circumstances we have, as you will probably be aware, recalled both Gooch and Henricksen so as to instruct them in the new methods of operation, and so as to bring them up to date with the progress which we have made over here.

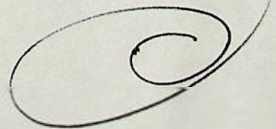
They will be returning to Stanley before the end of this year to carry out parallel plant and process work to confirm on the spot and under local conditions the results which we have been achieving over here.

It is true that the necessity for this new development work may introduce some slight delay even to the extent that there may be a period during which we may be short of seaweed raw material temporarily. It will, nevertheless, result in our production from the Falkland Islands proving more nearly competitive with existing production in the Northern Hemisphere, whereas previously it was clear that when the time came when it was necessary to produce alginates based on Southern Hemisphere supplies, they would inevitably cost very considerably more than alginates based on Northern Hemisphere supplies.

Michael Pery, whom you met briefly in London, will be visiting Stanley in January together with John Drew, our Chief Chemist. They will be able to explain at first hand the implications of the revised process. However, I can assure you that there will be no complication in applying to the new process the terms of the agreement we have reached. In the long term there should be better opportunities for employment as a larger proportion of skilled personnel will be required to operate this plant.

Finally I should like to repeat that we are very pleased indeed that the Agreement is now concluded as it is always extremely difficult to persuade one's colleagues and associates to put their backs into a project until such time as the foundation upon which it is based has been made secure. We can now expect an upsurge of enthusiasm.

E.G.Lewis Esq., O.B.E., C.M.G.,  
Governor of the Falkland Islands,  
Government House,  
Port Stanley,  
Falkland Islands,  
South Atlantic.

Yours Sincerely  
Ralph the lion.  


RRM/mba

698

# ALGINATE INDUSTRIES

LIMITED

DIRECTORS:  
W. R. MERTON, Chairman.

R. R. MERTON.  
R. CAMPBELL-PRESTON | Managing  
O.B.E., M.C. | Directors.

A. C. W. NORMAN, O.B.E.  
R. H. McDOWELL.  
D. L. BANKES.  
F. L. G. GRIFFITH-JONES.  
M. H. C. PERY.  
F. R. d'ERLANGER

22 HENRIETTA STREET, LONDON, WC2E 8NB



TELEPHONE  
01-836-0451/4.  
01-836-0142/3.

TELEGRAMS:  
"ALGINATES, LONDON, W.C.2"

CABLES:  
"ALGINATES, LONDON, W.C.2"  
TELEX: 23815.

DGJ/AH

18th October 1972

The Colonial Secretary,  
Port Stanley,  
Falkland Islands,  
South Atlantic.

Dear Sir,

In accordance with Clause 2 of the Licence recently granted to us by the Governor of the Falkland Islands, I have pleasure in enclosing a cheque for £1 in payment of the stipulated annual fee.

Yours faithfully,

D. G. Jones  
Secretary.



THE SOVEREIGNTY OF THE FALKLAND ISLANDS



COM/29/20

33

7th November, 1972.

Dear Sir,

Thank you for your letter DGJ/AH of 18th October, 1972 to the Colonial Secretary.

I enclose a receipt for the cheque forwarded with your letter in respect of the licence fee.

Yours faithfully,

FINANCIAL SECRETARY

D. G. Jones, Esq.,  
Secretary,  
Alginat Industries Ltd.,  
22 Henrietta Street,  
LONDON, W.C.2. 8.N.B.

HTR/LML.

498

H. G. 10/11

CONFIDENTIAL 091200Z

fm FCO to Immediate Falkland Islands telno 241 of 9 November

AIL

Al guides

1. The company has now written to CDA disclosing following 2 factors not previously brought out clearly to us
  - (a) no detailed costing of the project has yet been done, but it is estimated that about ~~£800,000~~ <sup>£800,000</sup> will be required for infrastructure items out of a total estimated investment of £3m.;
  - (b) the company hopes to obtain aid of about £1.5m in support of its project.
2. We intend saying we see no prospect of aid to the amount now required being available out of your allocation and are not in a position to indicate availability of any aid until we have consulted you.
3. AIL hope that Pery will be able to discuss matter ~~xxxx~~ <sup>when</sup> he visits you in January.
4. Letter in bag.



499

W/er.

# ALGINATE INDUSTRIES

L I M I T E D

DIRECTORS:  
W. R. MERTON, Chairman,  
R. R. MERTON,  
R. CAMPBELL-PRESTON } Managing  
O.B.E., M.C. } Directors  
A.C.W. NORMAN, O.B.E.  
R. H. McDOWELL,  
D. L. BANKES,  
F. L. G. GRIFFITH-JONES,  
M. H. C. PERY

22, HENRIETTA STREET, LONDON, WC2E 8NB



TELEPHONE:  
01-836 0451/4.  
01-836 0142/3.  
TELEGRAMS:  
"ALGINATES"  
LONDON.WC2"

CABLES:  
"ALGINATES, LONDON.WC2"  
BENTLEY'S SECOND PHRASE  
TELEX: 23815

3.30.  
Tues 31.X.

20th October, 1972

Dear Colonel Gordon,

Many thanks for your letter in answer to my letter of the 16th and for the enclosures.

I think this is right.  
J.M.

So far as pre-investment studies are concerned I think it unlikely that we should expect or apply for Government support because so much has already been done; but I should, of course, much appreciate your advice.

So far as Government support for both infrastructure and joint ventures is concerned, since the same information is required to be submitted to the Overseas Development Administration for applications in both cases we do not presumably have to make up our minds at this stage whether or not the project should be a joint venture, and I am therefore enclosing an outline of the information required, together with the enclosures referred to.

continued...



THE QUEEN'S AWARD TO INDUSTRY

- 2 -

I should very much like to have an opportunity of paying you a visit to go over this outline with special reference to the last paragraph.

In the meantime by all means treat this outline as a draft if it proves inadequate in any respect, as I feel it most likely will do.

Yours Sincerely  
J. Gordon

Colonel W.H.L. Gordon,  
Foreign and Commonwealth Office,  
Overseas Development Administration,  
Room No. E 601,  
Eland House,  
Stag Place,  
London SW1E 5DH

RRM/mba.



Extract from brochure received from the Foreign Office entitled "Aid for Infrastructure Associated with British Private Investment in the Developing Countries."

---

"Firms whose investment plans have reached a sufficiently advanced stage should submit the following details to the Overseas Development Administration.

1. Their name and address, with details of their business.
2. Details of the project in which they propose to invest, including the results of any pre-investment studies.
3. How the project will fit in with the overall development plans of the host country.
4. What will be the cost and timing of the project.
5. Details of the basic infrastructure not currently available in the area but necessary to support the project.
6. An estimate of the cost of installing this service and the extent to which local costs will be involved.
7. Whether the project and the infrastructure have been discussed with the host government."

FALKLAND ISLANDS PROJECT

Outline of  
Information required  
by the  
Overseas Development Administration

1. (a) Company - Alginate Industries Limited.
  - (b) Address of  
Head Office- 22, Henrietta Street, London, W.C.2.
  - (c) Business - Manufacture and sale of alginates.  
The following are enclosed by way of  
explanation of the Company's business.
    - (i) The 1969/1 issue of the Ciba  
Review in which the articles on  
the Alginate Industry were  
written by members of A.I.L.
    - (ii) The Company's 1969 Application  
for the Queen's Award to Industry  
which outlines the Company's  
activities.
    - (iii) The Company's report and Accounts  
for the year 1971
- 
2. The project consists in the establishment at Port  
Stanley of a factory to produce initially around 2,500  
tons p.a. of calcium alginate extracted from around  
125,000 tons of wet *Macrocystis Pyrifera* Seaweed,  
collected (by means of specially constructed harvesting  
craft) under licence granted by the Government of the  
Falkland Islands - copy of Licence enclosed.

continued....



The calcium alginate, which is not an end product in itself, will be shipped primarily to Scotland for further processing, purification and conversion into the many forms of marketable alginate, whence the greater part will be exported throughout the world.

So far as pre-investment studies are concerned the position to date is as follows:-

- (a) As early as 1947 a survey was carried out, the main object of which was to determine the amount and the availability of supplies of seaweed around the Falkland Islands, and the result of which showed that sufficient seaweed was available to provide raw material for a large scale alginate industry, once supplies from the Northern Hemisphere were being harvested to capacity.

At this time the idea had been to produce dried milled seaweed for export to Scotland thereby supplementing existing supplies as and when required. In fact this survey turned out to have been somewhat premature.

- (b) In September 1967 arrangements were made with the Government of the Falkland Islands to start procuring and despatching to Scotland monthly samples of *Macrocystis* seaweed for analysis; and this arrangement continued until in 1968 Alginate Industries appointed their own part-time representative in the Falklands.

continued...

- (c) In April 1969 the Islands were visited by a director of the Company, Mr. M.H.C.Pery, with the object of reinvestigating the establishment of a seaweed processing factory together with the question of obtaining a seaweed harvesting concession.  
(This concession has been granted - see Agreement and Licence enclosed.)
- (d) In the Autumn of 1970 a Pilot Plant to produce dried milled seaweed was established at Port Stanley and three resident staff engaged. Valuable experience was gained as a result of which it was concluded that it was essential from an economic point of view to devise a process enabling the first stage of alginate manufacture (that of producing crude calcium alginate) to be carried out in the Falklands instead of merely producing dried milled seaweed as raw material.
- (e) A prerequisite of being able to manufacture calcium alginate locally is the availability of sufficient fresh water, and studies were put in hand to investigate the construction of a barrage at the mouth of the Murrel river.

Measurements were made on the spot and on the basis of the information provided a rough estimate was prepared by Messrs. Crouch and Hogg, consulting engineers specialising on this subject. As yet, however, no accurate assessment has been made by means of experts on the spot, but it is clear that sufficient water can be made available.

continued....



- (f) Preliminary discussions have been held with the Ministry of Defence who are in possession of the necessary site, (the "Camber"), oil storage tanks, and basic jetty facilities which it is desired to make use of, and no difficulties are expected on this account.
- (g) During 1972 a process has been discovered by means of which it will be possible to produce calcium alginate at Port Stanley, bearing in mind the materials available locally. This process is at the present time undergoing in Scotland the several stages of "scaling up" necessary in order to determine the ultimate plant design, and personnel have been brought back from the Falklands so as to become familiar with its operation. They will be returning to Stanley in November.
3. The project represents virtually the only hope for the islands of improving their economic situation, and is likely ultimately to provide the inhabitants with the greatest value of exports per capita of almost any country in the world (say £5,000 to £10,000 per capita per annum). ✓
4. (a) Cost It is not as yet possible to produce detailed costs but an idea of the magnitude of the project can be obtained from the following:-

= P15

continued...

(i) Approximately 75 people will be employed for the initial scale of production, excluding the crews of two harvesting craft (10 men), to produce a turnover of around £1 million p.a.

(ii) The main items of Infrastructure are as follows, together with their very approximate cost.

	£
Water barrage and pipe line	400,000
Power	80,000
Housing -(25 houses at £10,000)	250,000
Drainage	50,000
Miscellaneous	20,000
	<hr/>
	800,000

(iii) Harvesting craft  
2 x £250,000 500,000

(iv) Plant etc. 1,200,000

(v) Working capital - finance  
of stocks and stores 500,000

Total	<hr/>	£ 3,000,000	<hr/>
-------	-------	-------------	-------

4 (b) Timing Preliminary plans are as follows:-

1972 - November Personnel at present undergoing re-training in Scotland return to Stanley.

1973 - January Mr.M.H.C.Pery, AIL Director, and Mr.J.F.Drew, AIL Chief Chemist, visit Falkland Islands.

continued...



1973 - April	Calcium Alginate Pilot Plant on stream at Stanley.
- Autumn	Mr. S.G.Donn, AIL Chief Engineer, and a Consultant, visit Falkland Islands.
1974 - Spring	Start building first unit on Camber site to act as large scale pilot plant.
- Autumn	Start preparations for dam and full scale site. Order first harvesting craft.
1975 - Spring	All equipment for manufacturing to be on site. Order second harvesting craft.
1976 - Spring	Start manufacture. On present forecast supplies of seaweed raw materials from the Northern Hemisphere will be fully extended by this time, so that supplies from the Falklands will be necessary.

5. See 4(a) ii above.

6. See 4(a) ii above.

continued..

7. It will be seen from the enclosed copy of the Agreement with the Government of the Falkland Islands that it has only recently been concluded.

Beyond this no discussions have taken place with the local Government but such discussions will be among the objects of the forthcoming visit; and it is important to know precisely which matters need to be included from the point of view of the Overseas Development Administration.

RRM/mba  
20.10.72





Foreign and Commonwealth Office  
London SW1

Telephone 01-

His Excellency  
Mr E G Lewis CMG OBE  
Governor and Commander-in-Chief  
FALKLAND ISLANDS

Your reference

Our reference HWF 7/2

Date 10 November 1972

*Dear Governor,*

ALGINATE INDUSTRIES LTD

1. You will have received my telegram about the alarming development in connexion with AIL's proposed undertaking in the Falklands.
2. In August, Merton told me that he had gained the impression that HMG would finance the infrastructure of his project. I was quite firm that the Foreign and Commonwealth Office had made no such commitment and we confirmed that no one else had. The papers were passed to Mr Kershaw who minuted, inter alia, "Merton should certainly be encouraged to make proposals, but not on the basis that HMG will underwrite them regardless of their expense".
3. Following his letter (copy attached) to the Private Investment Adviser, Merton had a meeting with Colonel Gordon. At this it emerged that AIL would like to see HMG finance the extensive infrastructure required to support the project, but Merton was told that both the Infrastructure and Joint Venture Schemes (for encouraging private sector investment in overseas territories) could only be financed from existing geographical aid allocations, and that the present Falklands allocation was fully committed. We have confirmed to ODA that we see no prospect of aid to the amount required by AIL being provided out of the territorial allocation, and, furthermore, we are in no position to indicate whether any aid can be made available prior to consultation with you.
4. Efforts were made to persuade Merton to look elsewhere for finance, but he preferred to await some response from us and ODA before pursuing alternative sources.
5. Merton has not yet said that continuation of the project depends on aid being made available, but there is a veiled inference to this effect in the attached letter.
6. As you know AIL is a well established firm with a paid-up capital of about £127,000. It has an annual turnover of about £3.3 million and a pre-tax profit of £440,000. Its financial position is sound, but it is clearly a smallish company to undertake an investment of about £3.0 million out of its own resources. Were the Company to try and do so, it is fairly clear that it would have to receive assistance either from the market or from another source.

/7. It



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- 2 -



7. It is clear that no detailed costing of the project has yet been done, but it is estimated that an expenditure of about £300,000 will be required on infrastructure items out of a total estimated investment of £3 million. The Company apparently hopes to obtain aid in support of its venture to the tune of about £1½ million.

8. Our own reading of the situation is that AIL, as they indicate, have not hitherto studied the costing and financing of the project, and have seriously under-estimated the financial burden which it will place upon the company, even assuming that Falklands Calcium Alginate is competitive in World Markets. As far as we can make out, if the Company were to raise the capital required on the open market, the servicing would consume the whole of its pre-tax profits for about four years before revenue started flowing in. It is therefore small wonder that AIL are looking to the Aid Programme to help them out of their difficulty.

9. I very much doubt whether such small sums as you could make available from your aid allocation (£250,000 for 1972/3 to 1976/7) would be of interest to Merton even if you reshape your Development Plan drastically (and I think we both feel that some implementation of Theophilus has a call on anything pared from Tourism). However, we would like to have your views as soon as possible. There is a slight possibility that some of the Private Investment Adviser's funds for supplementing geographical allocations for Infrastructure and Joint Venture Projects could be made available for supplementing your allocation, but this ~~release~~ *reserve* is small (£1 million world-wide for 1973/74), and I see no prospect whatsoever that it could provide sums of the magnitude required by Merton. Moreover, the release of even a small sum from the Private Investment Adviser's fund is dependent on the project fulfilling all the normal project appraisal criteria.

10. We of course share your view that it is essential the Falklands have some secondary industry capable of producing much needed additional revenue in the not too far distant future, and AIL seems the best bet so far. It may be (although I doubt it) that a relatively modest sum of capital aid would make the difference between the project being realised or abandoned, and we should then have good grounds for asking the Private Investment Adviser's help. Merton will, however, have to give us full details of his costings and requirements first.

11. We want to get Merton to say as soon as possible if realisation of the project is dependent on aid funds being available, and we must then be in a position to indicate what funds will be forthcoming subject to a satisfactory project appraisal, although it would be far more satisfactory if Merton could obtain his finance elsewhere.

/12. This

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12. This is all very trying. We feel that Merton should have brought this up at some stage during the protracted negotiations for the Agreement. He is now, to all intents and purposes, holding a pistol at our heads. David Scott is fully in the picture and you will no doubt wish to discuss the problem with him.

*Tass lun  
D G F Hall*

D G F Hall  
West Indian and  
Atlantic Department

ENC

CONFIDENTIAL

COM/29/2C

D G F Hall Esq MBE  
West Indian & Atlantic Department  
FCO, London SW1

30 November 1972

ALGINATE INDUSTRIES LTD

1. Many thanks for your letter HWF 7/2 of 10 November about Alginat Industries and their quest for capital assistance. I agree that the action by Merton gives support to the view widely held in the Islands that AIL are really only interested in keeping competitors out - at least Mitchell will be pleased that he has been proved right!

2. But to be fair Merton has always had in the back of his mind Government assistance to get the project off the ground and he did mention it to me informally when I lunched with him in London. However in my view, and I am certain that this will be the opinion of all members of the Council, there can be no question of any of our limited aid money going to help this project. Money is not tight at the moment and Merton can raise it elsewhere in the City if he wants to - I think that this should be made very clear to him. I will of course be happy to see Michael Perry when he comes out in January but if he is coming primarily to discuss raising money he is wasting his time which could be better spent in EC2.

E G LEWIS

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# ALGINATE INDUSTRIES

L I M I T E D

## DIRECTORS:

W. R. MERTON, Chairman.

R. R. MERTON,

R. CAMPBELL-PRESTON, } Managing  
O.B.E., M.C. } Directors

A. C. W. NORMAN, O.B.E.

R. H. MCDOWELL,

D. L. BANKES,

F. L. G. GRIFFITH-JONES,

M. H. C. PERY.

22, HENRIETTA STREET, LONDON, WC2E 8NB



## TELEPHONE:

01-836 0451/4.

01-836 0142/3.

## TELEGRAMS:

"ALGINATES.

LONDON.WC2"

## CABLES:

"ALGINATES, LONDON.W.C.2"

BENTLEY'S SECOND PHRASE.

TELEX: 23815.

27th November, 1972

*B/W K m /*  
*E.L.J. 4/12*  
*Dear Mr Lewis.*

I understand that the new air service to the Falklands had its inaugural flight last week and that in future it will be operating weekly every Monday.

Michael Pery has therefore arranged reservations for a party to fly out from Comodoro Rivadaria on Monday 22nd January with the idea of retracing their steps on Monday 5th February.

The party will consist of Michael Pery himself, John Drew our Chief Chemist, and two Americans from our competitors Kelco, in California.

The reason for the inclusion of the latter is that they have had many years experience of mechanically harvesting the same type of seaweed and we have persuaded their masters that as they will have to end up by buying alginates from us when the time comes that they are "top weight" for local seaweed they had better start cooperating at this early stage! I should perhaps explain that between Kelco and ourselves we manufacture three-quarters of the world's production of alginates.

continued...



Michael Pery will be able to give you first-hand information about our progress and plans, together with some sort of timetable of future developments.

In the meantime the development of our process for Manufacturing calcium alginate at Port Stanley is proceeding according to plan - but you will have received first-hand news from Gooch by now about this.

Yours Sincerely,  
Ralph Keble.

E.G.Lewis Esq., O.B.E, C.M.G.,  
Governor of the Falkland Islands,  
Government House,  
Port Stanley,  
Falkland Islands,  
South Atlantic.



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COM/29/2C

7 December 1972

R R Merton Esq  
Alginat Industries Ltd  
22 Henrietta Street  
London WC2E 8NB

Dear Mr Merton

Many thanks for your letter of 27 November and it was good news to hear that Michael Pery and his party will be coming out in January. I look forward to discussing with him plans for the future development of the company's activities.

The new air service is already settling down and by January the scheduled service should be operating efficiently - it is now, in fact, but the booking procedures allow something to be desired! Still at last we have a field and the money for the main airfield so we are getting along.

Yours sincerely

E G LEWIS

# ALGINATE INDUSTRIES

LIMITED

DIRECTORS:

W. R. MERTON, Chairman  
R. R. MERTON  
R. CAMPBELL-PRESTON, } Managing  
O.B.E., M.C. } Directors.  
A. C. W. NORMAN, O.B.E.  
R. H. McDOWELL  
D. L. BANKES  
THE RT. HON. THE VISCOUNT  
STUART OF FINDHORN,  
P.C., C.H., M.V.O., M.C.  
F. L. G. GRIFFITH-JONES  
M. H. C. PERY

BOX 214, PORT STANLEY, FALKLAND ISLANDS,

SOUTH ATLANTIC

TELEPHONE 220



HEAD OFFICE:  
22, HENRIETTA STREET,  
LONDON, W.C.2.  
ENGLAND

3rd January, 1973

His E. G. Lewis Esq. CMC, OBE.  
Government House.  
Stanley.

Your Excellency.

One of the company directors of Alginate Industries Ltd. the Hon. M. H. C. Pery who is known to you will be visiting the Falklands for a short stay arriving on the plane service of the 22nd inst. He will be accompanied by Mr John Drew who is the company's chief chemist, and two technicians in the field of kelp harvesting in which activity they are engaged in the USA.

As this is the season of movement in the Antarctic, and it is possible that your excellency may be absent in one of the vessels currently in these waters, I am writing in order that Mr Pery may be able to adjust his visit accordingly as I know that one of the objects of his visit is a consultation with you concerning the development of the A I L project.

I apologise for not having communicated this information earlier, but trust that any alteration will be willingly made on our side to suit your service obligations and convenience.

I have the honour to remain Sir,

Your most obedient servant.

D F Gooch.



THE QUEEN'S ARMS TO HERITAGE

*Stoke to Mr Gooch / P. 101*  
*E. G. 4 Jan*



# ALGINATE INDUSTRIES

L I M I T E D

DIRECTORS:  
W. R. MERTON, Chairman,  
R. R. MERTON,  
R. CAMPBELL-PRESTON } Managing  
O.B.F., M.C. } Directors  
A. C. W. NORMAN, O.B.E.  
R. H. M. DOWELL,  
D. L. BANKES,  
F. L. G. GRIFFITH-JONES,  
M. H. C. PERY.

22, HENRIETTA STREET, LONDON, WC2E 8NB



512

TELEPHONE:  
01-836 0451/4,  
01-836 0142/3.  
TELEGRAMS:  
'ALGINATES'  
LONDON.WC2"

CABLES:  
"ALGINATES, LONDON.W.C.2"  
BENTLEY'S SECOND PHRASE.  
TELEX: 23815.

The help and assistance of the Foreign Office is sought with regard to the attached proposal with a view to obtaining the approval of all parties interested, i.e. the Government of the Falkland Islands, the Bank of England and the Revenue Authorities.



THE QUEEN'S AWARD TO INDUSTRY

RRM/mba  
17.11.72



871

Proposal for a Special Tax Agreement between  
Alginate Industries Limited and the  
Government of the Falkland Islands  
with regard to  
the establishment of an Alginate Industry at  
Port Stanley

Object

To enable the Company to recoup over 10 years the Capital Expenditure involved, whilst at the same time contributing to the revenue of the Falkland Islands.

Method

AIL forms a wholly owned subsidiary company registered in the Falkland Islands which borrows capital under guarantee from AIL, invests it in assets as required and in arriving at the cost of operation includes for each of 10 successive years a figure for depreciation equal to 20% of Capital Expenditure. This involves special tax legislation on the part of the Falkland Islands Government by which it grants the industry an Investment Allowance of 100%.

Production is then sold to Alginate Industries at cost plus 10% by way of profit, the tax on which accrues to the Falkland Islands.

Reasons why it is hoped that the proposal will be favourably received.

The proposal is certainly in the interests of the Falkland Islands and hence is likely to be approved by the Foreign Office.

So far as the Revenue Authorities are concerned there already exists a double taxation agreement between the U.K. and the Falkland Islands which provides for reciprocal treatment.

There is also a precedent in the U.K. for granting Investment Allowances by means of which it is permitted to depreciate more than the cost of Capital Expenditure.

continued...



- 2 -

It has moreover been ascertained by discussion with the Overseas Income Tax Office that so far as profits arising from "cost plus" transactions between parent and subsidiary companies are concerned, their attitude can be summed up as one of acceptance of what can be shown to be "reasonable".

It is submitted that what is considered "reasonable" must depend upon such matters as the risks involved e.g. that of expropriation in the event of change in sovereignty etc., and the "second hand value" in the event of failure of the project and hence that the 100% Investment Allowance proposed should be accepted by the U.K. Inland Revenue as an item of cost along with the 10% profit.

Moreover the anticipated cost of production arising from the above proposals is of the same order as the cost of comparable material manufactured by AIL in Scotland, although inevitably it must cost somewhat more in view of the remoteness of the location.

It is because it is believed that seaweed supplies in the Northern Hemisphere will soon be fully utilised that it is necessary to seek extra production in the Southern Hemisphere even though the cost will be higher.

There already exists a precedent for the Falkland Island Government to pass special tax legislation in the case of an individual industry - the whaling industry.

RRM/mba  
20.11.72

Unofficial Note

We would like the Falkland Islands Government to grant our daughter company in the Falklands a 100% Investment Allowance which will cost the Falkland Islands Government nothing because we are proposing to work on a "cost plus" basis.

There is, however, no point in this if the U.K. Revenue Authorities are going to "negative" this advantage by means of disallowing the notional charge involved in the mother company's accounts.

The production - calcium alginate - is not an article of commerce so that it is not easy to determine an "arm's length" price, between daughter and mother company. However, in view of the hazardous nature of the adventure, we must arrive at an agreed formula before embarking on the project.

Our proposed formula is cost including 100% Investment Allowances spread over 10 years, plus 10% profit.

It is possible for you;

1. to help us persuade the Falkland Islands Government to pass the necessary legislation.
2. to help us to obtain the U.K. Inland Revenue's agreement in principle to our formula.

RRM/mba  
21.11.72.



Overseas Telegraphic Address:  
COLINTAX, LONDON, S.W.1.

TELEPHONE:  
SLOANE 0300 & 0309

Communications to be addressed to  
the Official Representative, quoting  
the reference below.

Reference F1/GEH/IFS

Your Reference DGJ/ad

THE OVERSEAS TERRITORIES  
INCOME TAX OFFICE,  
26, GROSVENOR GARDENS,  
LONDON, S.W.1

2nd July, 1969.

The Chief Accountant,  
Alginate Industries Ltd.,  
22, Henrietta Street,  
London, W.C.2.

Dear Sir,

I refer to the meeting with Mr. Comben on 3rd June, 1969.

I have now had a communication from the United Kingdom  
Inland Revenue and am conveying its contents herein as promised.

The United Kingdom Inland Revenue have no objection in  
principle to granting credit for overseas tax that has been  
charged on profits calculated as a percentage of turnover or  
production costs.

It is pointed out that the taxation of industrial or  
commercial profits is governed by Article 3. of the Double Taxation  
Agreement between the U.K. and Falkland Islands which allows the  
Islands to tax the industrial or commercial profits of a U.K.  
enterprise if there is a permanent establishment in the Islands,  
but only to the extent that these profits are attributable to that  
permanent establishment. Article 3(3) says that there shall be  
attributed to a permanent establishment in one country the profits  
it might be expected to derive from its activities in that country  
if it was trading at arms-length with the enterprise of which it is  
a permanent establishment.

The United Kingdom Inland Revenue will be prepared to give  
credit for tax charged on the basis of 10% of production costs  
if this can be shown to be a reasonable figure in the light of the  
provisions in Article 3.

The matter rests, therefore, on your demonstrating that 10% is  
"reasonable". On this, of course, you have already the precedent in  
the case of the Irish Company which you mentioned at the interview.

I shall be glad to have any further observations that you wish  
to make.

Yours faithfully,

*G. E. Hyde*  
G. E. Hyde  
for Official Representative

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*A.G. / B.M. & J.*

CONFIDENTIAL

*File d.*



**Foreign and Commonwealth Office**  
London SW1

Telephone 01-

His Excellency  
Mr E G Lewis CMG OBE  
Governor and Commander-in-Chief  
FALKLAND ISLANDS

Your reference  
  
Our reference      HWF 7/2  
  
Date                12 December 1972

*Dear Governor,*

ALGINATE INDUSTRIES LTD

1. Further to my letter of 10 November I now enclose a copy of a paper which Merton has sent to Mr Kershaw. I have discussed this with Merton in detail, and he has confirmed that the special tax arrangements he is now seeking are in addition to the financial aid for which he is still hoping. I have reiterated again that unless special arrangements are made, any aid from the present Falklands allocation is likely to be minimal.
2. Mickey Pery of AIL is visiting you in January/February of next year and will discuss the whole matter with you. Merton appreciates that Mr Kershaw will be unable to send him a substantive reply until you have had time to comment. When you have done so, we will pursue further the UK tax implications. In this connection I also attach a copy of a letter OTITO have sent to AIL.

*Yours ever*  
*D G F Hall*

D G F Hall  
West Indian and Atlantic  
Department

Enc

CONFIDENTIAL



516

# ALGINATE INDUSTRIES

L I M I T E D

120, GEORGE STREET, OBAN, ARGYLLSHIRE.

64  
15/11

DIRECTORS,  
W. R. MERTON, Chairman.  
R. R. MERTON  
R. CAMPBELL-PRESTON, } Managing  
O.B.E., M.C. } Directors.  
A. C. W. NORMAN, O.B.E.  
R. H. McDOWELL  
D. L. BANKES.  
F. L. G. GRIFFITH-JONES  
M. H. C. PERY



TELEPHONE:  
OBAN 2056.

HEAD OFFICE

22 HENRIETTA STREET  
LONDON, WC2E 8NB

29th December, 1972.

E. G. Lewis, Esq., C.M.G., O.B.E.,  
Governor of the Falkland Islands,  
Government House,  
Port Stanley,  
Falkland Islands,  
South Atlantic.

Dear Governor,

You will have received Mr. Merton's letter of 27th November explaining that I shall be visiting Stanley from 22nd January to 5th February accompanied by John Drew, our Chief Chemist, and two representatives from the Kelco Corporation of San Diego - Messrs. Conner and Hatton.

I think it might be helpful if I started by outlining our tentative programme for the next three years:-

- |               |   |
|---------------|---|
| Jan. '73      | Visit by M. Pery, J. Drew, and Kelco Representatives.<br>Pilot Plant for new process arrives.   |
| March '73     | Pilot Plant commissioned on Stanley Site.   |
| Oct/Nov '73   | Chief Engineer visits Falkland Islands with Consultants to prepare plans for main plant on Camber Site, Dam, Pipeline, Effluent discharge, Power Supply, etc. |
| April/May '74 | Erect larger Pilot Plant on Camber Site (probably one unit of each stage of final production plant).  |
| Oct/Nov '74   | Start engineering work for main production plant (site preparation, Dam, Pipeline, etc.).   |
| April/May '75 | Start erection of main production unit (2,500 tons per year).   |
| Early '76.    | Commence full scale production on Camber Site.  |

Whether or not this programme is expanded over a longer period will of course depend upon the continued growth of the World demand for Alginates and the solution of problems associated with providing the necessary finance. However, we have every hope that this programme should be achieved and at present the growth in our Sales is most encouraging.

The points which I should like to discuss during my visit with the appropriate people concerned are as follows:-

1. ✓ Erection of Barrage across Murrell River at the Narrows to the N.W. of Hearnden Water. *This will make all Fords impassable.*
2. ✓ Use of Camber Site and provision of alternative accommodation for Stores at present held in the "Coalsheds".
3. ✓ Possible purchase of Stanley Generating Equipment at present being replaced.
4. ✓ Fuel Oil requirements by Government, BAS and others when A.I.L. leases one of the MOD Fuel Storage Tanks on the Camber Site. ]
5. ✓ Provision of Capital and Taxation.
6. ✓ Staff and Labour Requirements - how these will best be met.
7. ✓ Housing requirements. *B.A.S.*
8. ✓ Liaison over shipping requirements to and from the Falklands.
9. ✓ Provision of temporary water supply to Camber Site prior to full scale production. *? Banks*
10. ✓ Possibility of tying in major Civil Engineering and Construction Work with other projects planned by F.I. Government, F.I.C. etc.
11. ✓ Disposal of Effluent.
12. ✓ Availability and Ownership of suitable supplies of sand.
13. ✓ Wayleave for water supply pipe from Murrell River to Camber Site.

Weather permitting I hope that Mr. Conner and Mr. Hatton will be able to carry out an aerial survey of the main Kelp Beds to the S.E. of Stanley and study the harvesting conditions in selected Kelp Beds in greater detail from the Sea.

? I do not think that the Barrage across the Estuary of the Murrell River would create any great problems as there is not intention to change the level and suitable fish ladders can be incorporated to satisfy the requirements of the Fishermen. The proposed new process will require large quantities of fresh water and flow measurements of the Murrell River indicate that it will be necessary to have some reserve as an insurance measure against prolonged spells of dry weather.



I believe you will have heard from the Foreign Office that Mr. Merton has had preliminary discussions with the Foreign Office and U.K. Government over measures designed to arrange finance for Alginite Industries in such a way as to benefit the Falkland Islands Government by means of Taxation yet still prove acceptable to the Inland Revenue. I should very much appreciate an opportunity to discuss these proposals with you personally in greater detail.

I still have a vivid recollection of how helpful everyone was during my previous visit in 1969 - albeit tinged with memories of several weeks of acute stiffness as a result of my adventures on horseback !

I hope that this letter will be of some assistance. I have sent a copy to Mr. Gooch and am much looking forward to seeing the Falkland Islands again.

Yours sincerely,

Richard Pery

M.H.C. Pery.

CONFIDENTIAL

Tel. No. 13 of 12th January, 1973.

From F.C.O. to Falkland Islands.

Alginate Industries Limited.

Your letter of 30th November.

1. Merton has been told orally that no money can be made available from the Falklands Aid allocation and we are confirming this in writing.
2. Merton has confirmed that the A.I.L. project in the Falklands is indeed dependent on some form of financial assistance but we doubt if he will begin to look elsewhere for this until Pery returns after discussions with you.
3. No doubt you will discuss with Comben the special tax proposals submitted by A.I.L. and sent to you with our letter of 12th December. Mr Kershaw will have to give Merton his views about these proposals in due course.

DOUGLAS-HOME



CONFIDENTIAL ~~DTG~~ 151400

518

● O ROUTINE FCO TEL NO 16 OF 15TH JANUARY

ALGINATES.

*Algeria file*

Yourtel No. 13.

I will discuss special tax proposals with Comben and will let  
you have my views on these and the overall situation after I  
have seen Pery

Lewis

ZCZC ATS443 MOW428X LHC903 FCW024

521

FKLX BY GBLH 059

LONDONLH 59/58 16 2001 BG

ETATPRIORITE

GOVERNOR

FALKLANDISLANDS

FM FCO 161500Z UNCLASSIFIED

TO PRIORITY SYDNEY TEL NO 002 OF 16 JANUARY INFO ROUTINE

FALKLAND ISLANDS

ALGINATE INDUSTRIES LTD YOUR TEL NO CRED A 1

1 AIL ARE NOT YET OPERATING IN THE FALKLANDS ONLY THE PRELIMINARY  
SURVEY STAGES OF THEIR ACTIVITIES ARE IN HAND THE LOCAL CONTACT  
IS CHIEF SECRETARY STANLEY FALKLAND ISLANDS

DOUGLA SHOME

COL 161500Z 002 16 1 1 ✓

NNNN

GOVERNMENT TELEGRAPH SERVICE  
FALKLAND ISLANDS

GOVERNMENT



523

COLONY OF THE FALKLAND ISLANDS

An Ordinance

Further to amend the Income Tax

Ordinance

(date of commencement)

Enacted by the Legislature of the Colony of the Falkland Islands,  
as follows:-

- 1.(1) This Ordinance may be cited as the Income Tax (Amendment) Ordinance 1973.
- (2) The provisions of this Ordinance shall have effect with respect to tax chargeable for the year of assessment commencing the 1st day of January, 1973, and for all subsequent years of assessment.
2. Section 9 (A) of the Income Tax Ordinance is amended:
  - (a) by the redesignation of existing section 9(A) as Section 9(A)(i) thereof; and
  - (b) by the addition as Section 9(A)(ii) thereof of the following:-
- 9.(A)(ii) The Governor in Council may by order make such provision (including without prejudice to the generality of the foregoing the making of allowances or the granting of rebates) by way of exception from the provisions of this Ordinance as to him may seem appropriate in respect of companies, resident in the Colony, engaged in the production of alginate compounds.

Order

(Under Section 9(A)(ii) of the Ordinance)

In the exercise of the powers conferred upon him by Section 9(A)(ii) of the Income Tax Ordinance, the Governor in Council has been pleased to order as follows:-

1. (1) This Order may be cited as the Income Tax (Special Allowances) Order, 1973.
- (2) The provisions of this Order shall have effect with respect to expenditure incurred in the year of assessment commencing on the 1st day of January, 1973, and in all subsequent years of assessment.
2. (1) Subject to the provisions of this Order, where in any year of assessment a company resident in the Colony (in this Order called "the Claimant") incurs capital expenditure of a type mentioned in sub-section (2) of this Section, the claimant shall upon making a claim to the Commissioner be entitled for the purposes of income tax and profits tax to an allowance (to be referred to as a "Special Investment Allowance") for such year of assessment and the nine succeeding years of assessment which in each such year shall be of an amount equal to one tenth of the expenditure in respect of which it is made.
- (2) A special investment allowance shall be made only in respect of capital expenditure incurred for the purposes of its trade by a claimant engaged in the production of alginate compounds.
- (3) Where the amount of any special investment allowance or allowances to which the claimant is entitled in any year of assessment under the provisions of this Order exceeds the chargeable income of the claimant for that year, the amount of the excess shall be carried forward without limit of time and set off against the chargeable income of the claimant in succeeding years of assessment.
- (4) A claim for a special investment allowance shall have annexed to it a certificate giving such particulars of the purposes for which the assets representing the expenditure in respect of which the claim is made will be used as will show that a special investment allowance falls to be made.
- (5) The provisions of this Order are without prejudice to the provisions of Section 11 of the Income Tax Ordinance.



Alginati

525

605/

I have discussed with Mr. Bay of Alginati matter concerning electric power supply and cost. I have handed him part A of my attached writings.

It has long been Alginati plan to generate their own power, which will be considerable, reason being it would be more economic for them to do so. They have the edge in respect of no distribution int. factor and believed they had the edge in respect of salaries for maintenance.

I have done a preliminary costing and believe this undertaking would offer a preferential tariff of \$ 1.25p/unit with written in safeguards, to show a favourable balance of the order of £29,000 per annum.

I am pursuing the matter with Mr. Bay. The object of this hurried minute is to put you in picture should Mr. Bay discuss with you.

You may wish to consider tapping the Savings Bank for funds to cover capital expenditure. ?!

Gottlieb  
31/1/73



En Aljaneh

Installed capacity 2,000 KVA - 1,600 KW.

Assume average load during operation - production 1,200 KW  
 120 hour production week. = 7.5 million units assuming 52 weeks  
 of production per year.

Current fuel cost - £21.13 per ton. - 8p/gall. - 0.94p/lb.

Assume 0.35 lbs per BHP/hr - 0.5165 per Kw/hr-unit.

Fuel component cost per Kw/hr = 0.47p

Lub oil @ 2.5p/hr 800 Kw unit = 0.09p

Fuel & lub oil component cost = 0.56p per Kw/hr

Allow capital cost £150,000 for additional plant.

1. Allow amortization <sup>of a loan</sup> by annuity, 15 years 7½% = £16,500
2. Allow salary increase - £2,000 to cover extra maintenance
3. Allow spares £4,000 for additional machinery

1. = 0.22p/Kwhr

2. = 0.027p/Kwhr

3. = 0.054p/Kwhr

Total other charges = 0.300p/Kwhr

Total production cost 0.56p + 0.30p = 0.86p/Kwhr.

Assume unit charge of 1.25p/Kwhr subject to fuel  
 and salary clause to cover possible increase in cost of these  
 components together with guarantee of consumption etc. Profit  
 accounting would be an additional £29,250. per year.



Ref.....

526

POWER & ELECTRICAL DEPARTMENT,  
STANLEY,  
FALKLAND ISLANDS.

1st February, 1973.

Minutes of Meetings held to discuss sale of surplus  
generating plant and future power supply to Alginates Ltd.

First meeting held at Power Station on 31st January 1973, those present Mr Perry and Mr Gooch for Alginates, Mr Gutteridge on behalf of Falkland Islands Government.

An inspection of the operating plant was made followed by an inspection of work in the new Power Station.

Discussions then took place concerning estimated power requirements for the main and final Alginate plant. Mr Perry gave figures previously produced by his advisers showing that an estimated installed capacity of 2,000 Kva. would be required. Mr Gutteridge suggested that an exercise in costings might be done to compare with those previously given by the potential Suppliers of the plant. There was a variation due to different fuel costs being used. From estimates and tentative workings Mr Gutteridge was of the opinion that the question of whether Government might be able to supply the main plant was worth further consideration, that is at an economical tariff mutually beneficial. Mr Perry agreed that the matter should be left open. Several matters concerning engineering were discussed, it then being lunchtime the meeting was adjourned.

The meeting continued latter in the evening of that day at Mr Gutteridge House with Mr Perry and Mr Gutteridge only being present. ~~XXXX~~

There was a brief recapitulation of the mornings discussion mostly on engineering problems. Mr Gutteridge said that he was advising Government that the asking price for the existing plant in toto, in situ, would be \$15,000 and that consideration would be given to the sale of the two 196 Kw Mirrlees sets only at \$7,500. Mr Perry expressed the opinion that this appeared a fair figure. Many other factors of general mutual interest on the ways and means of plant construction were discussed which did not concern Government. The discussions finished about 11 am.

cc. Mr Perry Alginates Ltd.  
The Chief Secretary,

  
Supt. P & E Dept.

ECG.



1st February 1973

Mr Comben

Financial Secretary

cc Chief Secretary  
The Hon M Pery

You and I discussed with Mr Pery this morning the taxation proposals that Alginates have put forward since it had become clear that we have all been seriously misunderstanding them. I think we have now got it straightened out.

2. The proposal is that AIL should register a wholly owned subsidiary company in the Colony to harvest kelp and produce calcium alginate and sell it to the parent company in UK. This subsidiary will have its central management and control in the Colony and will thus be resident in the Colony for income tax purposes. Since the subsidiary will neither be resident nor trading in the UK it will not be subject to UK tax, and since the parent will neither be resident nor trading in the Colony it will not be subject to Colony tax. No question of double taxation relief arises therefore.

3. The problem then arises of the price at which the subsidiary is to sell calcium alginate to its UK parent, since there is no ascertainable market price. The higher the price of transfer the greater the profits and tax of the subsidiary and the lower the profits and tax of AIL. It is suggested that the price should be 10 per cent above the cost of production of calcium alginate in the Colony. ~~For~~ The heart of the present proposal is that the Colony should be asked to pass legislation allowing the subsidiary for tax purposes to write off its capital expenditure twice, that is on a life of 10 years to write off 10 per cent per annum as ordinary depreciation and a further 10 per cent per annum as an incentive. The subsidiary would adopt these figures for its own purpose. The apparent cost of production of calcium alginate would be increased and the price at which it is to be sold to the parent would also be increased. This would increase the subsidiary's Colony tax and decrease the parent's UK tax.

4. The figures being projected are that about £2½ million would have to be borrowed to buy capital equipment, and the cost of royalties, wages, chemicals, power and interest in a year of full production would be about £1 million.

5. On the basis of these figures the Colony tax position would be as follows:

a) with normal depreciation -

production costs	£1,000,000
normal depreciation	<u>250,000</u>
profit	£1,250,000
sale at 110 per cent of costs	<u>£1,375,000</u>
profit	<u>£125,000</u>

With Colony income tax and profits tax at 40 per cent this would yield tax of £50,000.

b) with double depreciation:

production costs	£1,000,000
double depreciation	<u>500,000</u>
	£1,500,000
sale at 110% of costs	<u>£1,650,000</u>
profit	<u>£150,000</u>

Tax on this would be £60,000 so that Colony would gain £10,000 tax.



6. AIL will have to persuade the UK Inland Revenue to accept the higher sale price arrived at by including double depreciation in the costs otherwise they will not get the benefit in UK tax. They think they will find it much easier to do this if the Inland Revenue can be shown draft legislation which the Colony is prepared to recommend to the legislature granting this double depreciation as an inducement to new industry (even though in fact the result of the inducement will be to make them pay higher Colony tax). If AIL can show the actual wording of the proposed legislation to the Inland Revenue the hypothetical element in the question will be reduced to an absolute minimum.

7. We also discussed the proposal that the loan which the Colony subsidiary will presumably have to obtain for its capital equipment should be under a contract which is executed in the Colony and made subject to Colony law with the object that such interest can be shown indisputably to accrue in and be derived from the Colony (section 5 of the Income Tax Ordinance) so that AIL will be subject to Colony tax on the interest. It could be assessed through the subsidiary as its agent. This device would be of no advantage to the companies but if £2½ million were borrowed at 8 per cent. interest in the first year would be £200,000 and the Colony would obtain £80,000 tax.

8. Mr Pery asked whether interest paid on a mortgage to purchase a home was allowable deduction for tax in the Colony. We had to tell him that it was not, but we saw no reason why it could not be made allowable as it is in UK. This would help Mr Pery with housing problems when he has to bring out staff. If any legislation were proposed I think we would have to arrange things so that a lender outside the Colony was liable to tax on the interest, while the borrower obtains a deduction.

B



# MEMORANDUM

529

Reference .....

Date 5 February 1973

From Mr J Comben

To Financial Secretary

cc Chief Secretary  
Registrar General

## Alginate Industries Limited

I am not very attracted by the draft legislation put forward by AIL's solicitors, mainly because it proposes a Colony Ordinance referring to companies "engaged in the production of alginate compounds" and virtually authorizes the Governor in Council to dispense with the law in any way that seems to him appropriate. The draft does not even say that the dispensation must be in the company's favour.

2. I prefer the procedure usually adopted for pioneer industries claiming a tax holiday. This is,

- (a) the company makes application in specified form;
- (b) government vets the application, and
- (c) the relief is granted by a specific order naming that company.

3. If we follow this procedure we need an addition to Section 11, Income Tax Ordinance, enabling the Governor in Council to make Orders covering the procedure as a whole and also Orders granting relief to the named company. This will tie up with our proposals to re-write Section 11 providing statutory rates of depreciation but, for the sake of clarity, we had better take it a stage at a time and assume that Section 11 stays as it is.

4. On this basis I suggest we want two further subsections to Section 11 on the following lines:

(2) The Governor in Council may, where he is satisfied that it would be in the economic interests of the Colony to do so, make an Order authorizing an additional deduction (not exceeding in amount the deduction permitted by subsection (1)) to be made in computing the chargeable income of any such person who has made application under this subsection and may prescribe in such Order the conditions upon which such deduction may be made.

(3) The Governor in Council may by Order make rules specifying the persons who may make application under subsection (2), the procedure to be followed and the information to be supplied.

5. We may then assume that AIL's local subsidiary has made an application under the Order made under subsection (3), that the application has been accepted and that the Governor in Council is about to make an Order under subsection (2) granting the relief to that company by name. It seems to me essential that the Order should lay down the prime condition of granting the relief for any year, i.e. that the company has sold its product during that year at 10 per cent over cost, such cost to include double depreciation. It might also include the general condition that any agreement under which the company borrows money shall be executed in and be subject to the laws of the Colony, with a view to ensuring that interest on such money is income "accruing in or derived from" the Colony and thus subject to Colony Income tax.

\* I have had a quick word with Mr. Bay who accepts that this condition should be included.

J. Comben



*recd 5 Jan*

930 8440 Ext 579

R R Merton Esq  
Alginat Industries Ltd  
22 Henrietta Street  
LONDON WC2

25 January 1973

## FALKLAND ISLANDS PROJECT

Thank you for your letter of 5 January enclosing copies of a record of our telephone conversation on the previous day.

I would like to clarify one small point in the record. The tax suggestions submitted by you to Mr Kershaw were duly sent to the Governor, who has now confirmed that he is discussing them with Mr Comben, the fiscal expert who is in the islands at the moment.

I must also point out that increased taxation proposals will not necessarily result from Mr Comben's visit, even though the present high prices for wool should give a fillip to the economy and to the revenues of the Falkland Islands Government.

The Governor has also confirmed that no funds from the Falkland Islands aid allocation can be made available to support your project. As was indicated to you by Colonel Gordon, it is possible, in certain circumstances, to supplement funds made available from a territorial aid allocation for a particular project should this be considered desirable, but as no funds are available for your project from the Colony's territorial allocation the question of supplementation does not arise. In any case, it looks as if the aid allocation approved for the Falklands, even if supplemented by any centrally-held funds which could be made available would still fall well short of the additional investment capital which your firm appears to require.

I suggest that we should now await Mr Pery's return, and the Governor's reaction to your tax proposals, when Mr Kershaw should be in a position to reply to your letter of 21 November.

## Silent Copies:

✓ HE Mr E G Lewis CMG OBE  
Governor and Commander in Chief  
Falkland Islands

Mr K P O'Sullivan K 195  
Colonel W H L Gordon E 601 ODA

D G F Hall  
West Indian and  
Atlantic Department

531

NR 7 PRIORITY 2.2.1973 1635Z

FM BRANSFIELD

TO STANLEY OFFICE

BD/112/73 S/31/13A PLEASE INFORM GOVERNOR THAT IF A FIRM  
OFFER IS MADE WE PROPOSE TO ACCEPT IT AS ONE HALF NOT BEEN  
FORTHCOMING FROM <sup>ARGENTINES</sup> ~~BGLTS~~. YOU CAN THEN INFORM LONDON THAT IT HAS  
BEEN DONE AND THAT WE PROPOSE TO SEE<sup>ALGINATES</sup> ~~ELL~~ TO ~~UPLIW~~ ~~XJSTT~~ ~~YGLPV~~,  
SO THAT NERC CAN BE INFORMED. DO NOT ANTICIPATE ANY DIFFICULTIES  
FROM THIS SOURCE BUT ALL THIS MUST BE DONE BEFORE ACCEPTANCE  
OF AN OFFER CAN BE MADE.

DRG/HMO'G

COL: ~~BGLTS~~ ~~UPLIW~~ ~~XJSTT~~ ~~YGLPV~~ NERC



BRITISH ANTARCTIC SURVEY  
FALKLAND ISLANDS

HE for 532  
info.

B7 007

SENT

Number **Z**

PRIORITY Date 1.2.73

Time 1900Z

FM STANLEY OFFICE  
To MASTER BRANSFIELD  
INFO

~~ALGINATES~~  
S/31/13A FOR D R GIPPS. ~~UPIN~~ ~~XIST~~ ~~YCNV~~ VERY INTERESTED IN PURCHASE OF  
~~SINGLE MENS QUARTERS.~~ ~~OTUPB~~ ~~KGTXC~~ ~~NEFW~~ ~~ABBY~~ ~~SUGGESTING~~ ~~TEKH~~ ~~LESS~~ ~~SYKY~~ NECESSARY TO COMPLETE  
WORK ON BUILDING. DO WE TAKE IT, IF SO WILL IT BE THROUGH STANLEY OR LONDON=

RDC/-

Time

# GOVERNMENT TELEGRAPH SERVICE

FALKLAND ISLANDS

## SENT

Number	Office of Origin	Words	Handed in at	Date
--------	------------------	-------	--------------	------

3.2.73

To

BRANSFELD FOR GIPPS FROM GOVERNOR

Copy to London for Sloman.

YOUR BD/112/73 S/31/13A of 2 February: STANLEY HOUSING

1. This offer was made by Michael Pery of Alginates after discussion with me on housing needs if as we hope operation gets under way. Alginates are thinking in terms of labour force of 70 so that there will be a contingent demand for executive housing.
2. I would prefer sale to Alginates as offer from other source would have political implications and I consider figure quoted is fair.
3. I am copying this tel to Bill Sloman with whom I discussed general problem when he was in Stanley.

Time



20/2/72

passed to DTS  
031725Z

534

# GOVERNMENT TELEGRAPH SERVICE

FALKLAND ISLANDS

## SENT

Number	Office of Origin	Words	Handed in at	Date
--------	------------------	-------	--------------	------

3.2.73

To

BRANSFEILD FOR GIPPS FROM GOVERNOR

Copy to London for Sloman.

YOUR BD/112/73 S/31/13A of 2 February: STANLEY HOUSING

1. This offer was made by Michael Pery of Alginates after discussion with me on housing needs if as we hope operation gets under way. Alginates are thinking in terms of labour force of 70 so that there will be a contingent demand for executive housing.
2. I would prefer sale to Alginates as offer from other source would have political implications and I consider figure quoted is fair.
3. I am copying this tel to Bill Sloman with whom I discussed general problem when he was in Stanley.

Time



Buenos Aires, 7<sup>th</sup> Feb 73



Lancaster

Dear Governor,

First, I should like to say how grateful I was for your kind hospitality and the invaluable assistance that you gave to our party during our visit. The assurance from Mr. Laying and yourself that all parties would cooperate could not have proved more true in practice and, as during my previous visit, everyone was extremely helpful.

I shall arrange on my return for our Technical Director to send to you chapter and verse of how the ~~subsidies~~ royalty payments will be affected by our decision to produce Coleman Alginate as offered to dried kelp.

As I hope to take a week's skiing holiday immediately on my return, I thought that I should take the opportunity of Portland to confirm Alginate Industries wish to buy the B.A. and request the F.I.G. to transfer the lease of the ground if purchase is approved by B.A.S. and yourself. I understood the asking price was £10,000 and this figure has been approved by Managing Director. I shall write to B.A.S. with

ALGINATES FILM

538





Lancaster  
you when I return to the office.

I also spoke to Gordon Johnston of ESRO and he intimated that ESRO will probably be relinquishing 4 or 5 houses over the next 18 months. I am not exactly clear as to how these will be disposed of but Alginates are certainly very interesting.

I am enclosing a copy of the Y.P.F. specification of the Gas oil that they propose to offer to the F.I.G. and ourselves. I am afraid I am no expert but it appears to me to be perfectly satisfactory for use in diesel engines. I am sending another to Mr. Gutteridge as he expressed interest and is more qualified than me to comment on its merits. Following an introduction from Mr. I had a most useful meeting with Mr. Lofey, the distribution manager and Mr. Campbell.

Having had the benefit of the advice of two Kelco representatives, I am now much happier over the question. The quantities of help available are very not quite the seemingly fantastic figures produced of the 1947 survey.

I much look forward to returning to the not too distant future.

Yours Sincerely

[P.H.C. PERY]

EXTRACT

TO

Y.P.F.

FILE

Extract made

8/22/2



340

# CONFIDENTIAL

## EXECUTIVE COUNCIL

No. 3/73

### ALGINATE INDUSTRIES LIMITED INVESTMENT ALLOWANCE

Alginate Industries are proposing to register a wholly owned subsidiary company in the Colony to harvest kelp and produce calcium alginate and sell it to the parent company in the United Kingdom. The subsidiary will be resident in the Colony for income tax purposes. The subsidiary will not be subject to U.K. tax and the parent will not be subject to Colony tax.

2. It is suggested that the price at which the subsidiary is to sell calcium alginate to its U.K. parent should be 10% above the cost of producing it. The higher the price of transfer the greater the profit and tax of the subsidiary.

3. Government has been asked to consider passing legislation allowing the subsidiary for tax purposes to write off its capital expenditure twice, that is on a life of ten years to write off 10% per annum as ordinary depreciation and a further 10% per annum as an incentive. The apparent cost of production of calcium alginate would be increased. This would increase the subsidiary's Colony Tax and decrease the parent's U.K. tax.

4. Alginate Industries need to persuade the United Kingdom Inland Revenue to accept the higher sale price arrived at by including double depreciation in the costs otherwise they will not get the benefit in United Kingdom tax. They think they will find it much easier to do this if the Inland Revenue can be shown draft legislation granting this double depreciation as an inducement to new industry (even though in fact the result of the inducement will be to make them pay higher Colony tax).

5. It is considered that if Alginate Industries Ltd. can show the actual wording of the proposed legislation to the Inland Revenue the hypothetical element will be reduced.

6. Mr. Comben has suggested that the following procedure should be adopted:-

- i. the company make application in specified form.
- ii. Government vets the application, and
- iii. the relief is granted by a specific order naming the company.



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A Bill  
for  
An Ordinance

Title Further to amend the Income Tax Ordinance  
No. 1973

Date of  
commencement

(

);

Enacting clause

BE IT ENACTED by the Legislature of  
the Colony of the Falkland Islands, as  
follows -

Short title and  
commencement

1. (1) This Ordinance may be cited  
as the Income Tax (Amendment) Ordinance,  
1973.

(2) The provisions of this  
Ordinance shall have effect with respect  
to tax chargeable for the year of  
assessment commencing on the       day of  
197 , and for all subseq-  
uent years of assessment.

Amendment of  
section 11.  
(Cap. 32)

2. Section 11 of the Income Tax  
Ordinance is amended by -

- (a) being renumbered (1) thereof; and
- (b) adding the following new sub-  
sections -

"(2) The Governor in Council may,  
where he is satisfied that it would be  
in the economic interests of the Colony  
to do so, make an Order authorising an  
additional deduction (not exceeding in  
amount the deduction permitted by  
subsection (1)) to be made in computing  
the chargeable income of any such  
person who has made application under  
this subsection and may prescribe in  
such Order the conditions upon which  
such deduction may be made.

(3) The Governor in Council may  
by Order make rules specifying the  
persons who make application under  
subsection (2), the procedure to be  
followed and the information to be  
supplied."

Objects and Reasons

To provide the Governor in Council  
with the power to authorize additional  
capital allowances in cases where he  
is satisfied that such allowances are  
in the economic interests of the Colony  
and to empower the Governor to specify  
the persons making such applications  
and the procedure to be followed and the  
information to be supplied.

541

28 February 1973

The Hon Michael Pery  
Alginate Industries Ltd  
120 George Street  
Oban  
Argyllshire  
SCOTLAND

Dear Mr Pery

Thank you for your letter of 7 February written from Buenos Aires and I am glad you feel that all went reasonably well during your stay in the Falklands; certainly as far as we were concerned we enjoyed having you and your American colleagues in the Islands so that we could discuss the current position.

I am glad that you are making a bid for the BAS hostel as I think it is a good buy. The CSRO houses as they come available should also be a useful investment for the future. I will be in touch with you again shortly about the proposed draft legislation to amend our tax laws and will let you know the position.

My regards to Ralph Merton.

Yours sincerely

E G LEWIS



UNCLASSIFIED

D G F Hall Esq MBE  
West Indian & Atlantic Department  
FCO, London SW1

2 March 1973

ALGINATE INDUSTRIES LTD

1. Would you please refer to your letter of 25 January addressed to Mr Ralph Newton, Chairman of Alginate Industries Ltd.
2. The visit of Mr Pery and his 2 American colleagues from Kelco went off very well and we managed to deal with a host of technical and administrative matters the details of which I will not go into in this letter; it is sufficient to say that none of these problems caused us too much difficulty. Also it was the opinion of both Mr Pery and the 2 Americans (who incidentally were looking at the harvesting techniques required for the collection of the kelp) that there are sufficient reserves of kelp in our waters to support a viable industry.
3. The real crux of the talks of course concentrated around the tax proposals and we were fortunate in having with us Mr Comben whose advice on these matters was invaluable. I am enclosing a copy of the Executive Council memorandum which was considered yesterday and approved by the Council and I think this will give Alginates the lever they need in their negotiations with the Inland Revenue Department and will also help them when the time comes to raise capital in the City.
4. Mr Pery, when questioned by me, confirmed that if something on the above lines was agreed to by the Inland Revenue Department then Alginates would not be looking for additional development capital from HMG.
5. In regard to royalty payments the manufacture of calcium alginates will mean that we will have to know exactly the quantity of kelp going into the production of the product, and we are in touch with Mr Pery on this point.

EXTRACT FROM MINUTES OF EXECUTIVE COUNCIL MEETING NO. 2/73HELD ON 1ST MARCH, 1973

COM/29/2 C

7. ALGINATE INDUSTRIES LIMITED - INVESTMENT ALLOWANCE  
(Memo 3/73)

A suggested amendment to the Income Tax Ordinance (Cap 32), which would provide the Governor in Council with the power to authorise additional capital allowances in cases where he was satisfied that such allowances were in the economic interests of the Colony, and would also empower him to make rules setting out the procedure to be followed when such additional allowances are claimed, was debated.

Council advised that the bill should be remitted to the Legislature whenever it became apparent that the United Kingdom Department of Inland Revenue would accept the write-off of double depreciation on the part of a locally registered subsidiary company as an item for relief from United Kingdom Income Tax for a United Kingdom registered parent company.

*B. J. J.*  
CLERK TO COUNCIL



From:  
J. E. COMBEN, O.B.E.  
Telephone Crowborough 3606

1 ANGROVE HOUSE  
GOLDSMITH AVENUE  
CROWBOROUGH  
SUSSEX

13th March 1973

H.T. Rowlands Esq.,  
Stanley,  
Falkland Islands.

Dear Harold,

The front door bell rang a day or two ago and my wife, who answered it, staggered in with a parcel of pensioners' files. I was surprised to find that enough time had passed for the AES to have arrived with the post and was reminded that I ought to have written to you before this. The truth is that I have been very busy. A great deal of the work has been over the affairs of Alginates and I'd better start with an interim report on them.

I have been to London twice to see Ralph Merton, one of the managing directors, and we have waded through a maze of figures. The only thing I feel tolerably certain about at the moment is that they have abandoned the scheme that was being discussed when I was with you - I mean the scheme by which you would promulgate legislation to give them double depreciation for FI tax purposes and their FI subsidiary would adopt this legislation to inflate its own costs and thus the price (on a cost plus 10 per cent basis) at which it sold to AIL in UK. You may know that I was never very optimistic about the prospects of convincing the Inland Revenue in the UK that such a transfer price was genuine but the scheme has ultimately fallen down on the necessity that the FI subsidiary should not be resident in the UK. If it were so resident its profits would become liable to UK tax and no advantage would be obtained from inflating the transfer price. Residence, as you know, is equated with "central management and control" and I have said that no one is ever going to believe that the management of this group is located anywhere but in London. This largely arises from the nature of the trade. The FI company would be making CaAlg to be sent to UK to be turned into the various final products and marketed. Obviously FI decisions would be taken in the light of varying outlets and world markets and could only be determined by the directors in London. Any such device as a Stanley board which held occasional meetings in the lounge of the Upland Goose would be a hollow sham since its decisions would be dictated to it from UK. Merton accepts this and has given up the double depreciation scheme.

We are now looking for an alternative that will give the company a tax advantage without loss to the revenues of the FI government. I mentioned to you the possibility of giving them a tax holiday on profits in exchange for liability to tax on interest paid but it is beginning to look as if it might be very difficult to contrive this so that both parties benefit. We shall go on looking at figures and I will report again.

Now one or two miscellaneous items.

Depreciation. Do you want to amend Section 11 either to prescribe statutory rates of depreciation or to authorise the G in C to do so by Order? In any event I think you ought to repeal (c) of Section 10(1). This is confined to plant and machinery which has become obsolete and is being replaced. It should be replaced by a modern provision giving a balancing allowance or imposing a balancing charge. As I mentioned, it may be of importance when the Darwin is sold.

Losses. Do you agree that the time has come to amend Section 13 to remove the

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UNCLASSIFIED

COM/29/2C

21 March 1973

D G F Hall Esq MBE  
West Indian & Atlantic Department  
FCO, London SW1

ALGINATE INDUSTRIES LTD

1. With reference to my letter of 2 March, I set out below an extract from a letter which has been received by the Financial Secretary from Mr Comben:

"I have been to London twice to see Ralph Merton, one of the managing directors, and we have waded through a maze of figures. The only thing I feel tolerably certain about at the moment is that they have abandoned the scheme that was being discussed when I was with you - I mean the scheme by which you would promulgate legislation to give them double depreciation for FI tax purposes and their FI subsidiary would adopt this legislation to inflate its own costs and thus the price (on a cost plus 10 per cent basis) at which it sold to AIL in UK. You may know that I was never very optimistic about the prospects of convincing the Inland Revenue in the UK that such a transfer price was genuine but the scheme has ultimately fallen down on the necessity that the FI subsidiary should not be resident in the UK. If it were so resident its profits would become liable to UK tax and no advantage would be obtained from inflating the transfer price. Residence, as you know, is equated with 'central management and control' and I have said that no one is ever going to believe that the management of this group is located anywhere but in London. This largely arises from the nature of the trade. The FI company would be making CaAlg to be sent to UK to be turned into the various final products and marketed. Obviously FI decisions would be taken in the light of varying outlets and world markets and could only be determined by the directors in London. Any such device as a Stanley board which held occasional meetings in the lounge of the Upland Goose would be a hollow sham since its decisions would be dictated to it from UK. Merton accepts this and has given up the double depreciation scheme.

"We are now looking for an alternative that will give the



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company a tax advantage without loss to the revenues of the FI government. I mentioned to you the possibility of giving them a tax holiday on profits in exchange for liability to tax on interest paid but it is beginning to look as if it might be very difficult to contrive this so that both parties benefit. We shall go on looking at figures and I will report again."

2. The above is disappointing after all the work we put in here during the visit of Mr Pery but no doubt Ralph Merton will come up with another scheme in due course.

E G LEWIS

# ALGINATE INDUSTRIES

L I M I T E D

120, GEORGE STREET, OBAN, ARGYLLSHIRE.

TELEPHONE:  
OBAN 2056.

DIRECTORS:  
W. R. MERTON, Chairman.  
R. R. MERTON  
R. CAMPBELL-PRESTON, } Managing  
O.B.E., M.C. } Directors.  
A. C. W. NORMAN, O.B.E.  
R. H. McDOWELL  
D. I. BANKES  
F. L. G. GRIFFITH-JONES  
M. H. C. PERY.



HEAD OFFICE

22 HENRIETTA STREET  
LONDON, WC2E 8NB

REGISTERED IN ENGLAND (No. 285933)  
REGISTERED OFFICE 22 HENRIETTA STREET, LONDON, WC2E 8NB

16th March, 1973.

E. G. Lewis, Esq., C.M.G., O.B.E.,  
Governor of the Falkland Islands,  
Government House,  
Stanley,  
Falkland Islands,  
South Atlantic,

Dear Governor,

Thank you for your letter of 28th February.

Since my return we have all been working hard at the Falkland Islands project and it has now become clear that the capital sums involved are even larger than we had anticipated.

You will by now no doubt have heard from Mr. Comben that as a result of the two meetings that we have had in London, we are now exploring various other possibilities in addition to the double depreciation approach which I outlined during my visit.

Ralph Merton is at present in Japan and when he returns at the beginning of April, we shall be having further discussions with Mr. Comben and hope to be able to let you know the outcome during April.

Yours sincerely,

M.H.C. Pery.



Algeria File

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3rd March 1973

Dear Jim,

I have been home for a fortnight and the scent of peat smoke (as well as of cooking mutton) seems a long way off. I said good-bye to Harold in B.A. but the last news I had from the Embassy was that he was sitting with well-concealed impatience on Ezeiza airport waiting for yet another aeroplane that had been delayed. I've since heard from him in the BVI but I do not know what pains he suffered to get there.

I would have written before but have been immersed in work. If this is retirement I'm not sure that I can stand the pace. I had a pretty good accumulation of post waiting for me, I've got another job from the FCO (drafting legislation which I do at home) and Alginates have been hanging on my coat-tails. After several phone calls I spent most of yesterday with Ralph Merton, a managing director, and I am due to see him and Mickey Pery next Wednesday.

Merton's line is that they have only been able to succeed so far because Scotland is a "development area" in which they get special tax concessions and that he won't go to the Falklands unless he can get tax concessions there. This cannot be true because he is mad keen to go. In fact he showed me a fifteen year projection (in great secrecy to which I also bind you) based on the assumption that they will soon reach a limit to kelp cropping in the northern hemisphere and will only be able to continue to expand if they use your seaweed. These figures prophesied that at the end of fifteen years their output from FI would be substantially greater than their total output now and that they would have invested about £9 million in the Colony. So I don't see how they can afford not to go. But we are trying to exploit the double taxation arrangements so as to give them a benefit without any cost to the Colony revenues and if we can do that there should be a plenitude of goodwill on both sides. I will make a full report when I think we are getting somewhere.

I have not yet seen Alistair Sloggie's friend about commemorative coins. Instead I wrote to the Mint, thinking I would like to be armed with something official before exposing myself to the business world. The Mint hasn't replied yet.

I must say I thoroughly enjoyed being with you. Please give my regards to anyone you see who helped to make the visit so pleasant - H.E. and Mrs. Lewis, Harold (I shall be writing to him), the Ashmores, the Millers, the Kings, Ted Gutteridge, Willie Bowles and many others. And I hope your spirits are keeping up.

Yours ever,

John

Replied off

TRE 7/5/73

29 March 1973

The Hon Michael Pery  
Alginat Industries Ltd  
120 George Street  
Oban  
Argyllshire  
SCOTLAND

Dear Mr Pery

Thank you for your letter of 16 March giving me the latest state of play on the negotiations you are carrying on in London. We have now heard from Mr Comben and it's clear from his letter that it is not going to be easy to find a formula which will satisfy everyone concerned - it never is!

However, I am glad to hear that you are looking at various other possibilities in addition to the double taxation approach and I look forward to receiving your next letter giving me the latest news.

In the meantime, as promised in my letter of 28 February I thought you would like to know that Executive Council approved in principle the draft legislation to amend our Income Tax Ordinance - 3 copies of the draft Bill are enclosed for your use.

Yours sincerely

E G LEWIS

Encs 3





1632 McGAW AVENUE, P. O. BOX BL, IRVINE, CALIFORNIA 92664, TELEPHONE: (714) 557-6911

February 14, 1973

Mr. Frederick Jones  
Yotes Court, Mereworth  
Maidstone, Kent, England

Dear Mr. Jones:

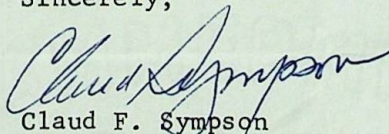
In reply to your letter of January 26 we are glad to learn that you are returning to the Falkland Islands in the near future.

We would like to know what kelp beds could be made available to us. Your idea of their content, the extent to which Kelco controls beds, the extent to which other companies may control beds, the best place to locate a plant adjacent to the beds which may be available to us, whether there is going to be a change in government or control in the near future from England to Argentina, and whether there is any current activity in the harvest of *Macrocystis* in the area. (A.I.L.)

Attached is a letter following your suggestion that you might use with the authorities to gather this and other information for us.

We trust that you had a pleasant trip and that we will have the pleasure of hearing from you when you have had an opportunity to gather the facts.

Sincerely,

  
Claud F. Symphon  
President

CFS:bf

Encl.

55  
m.v. "A.E.S."

Stanley.

6 April 1973.-

The Colonial Secretary,  
Stanley.



Sir,

Please be kind enough to grant me an interview any time at your early convenience: if possible within the next few days, as I have only just arrived in the Colony and expect to leave next week.

The enclosed letter from Ocean Labs. Inc., who are the parent firm of Philip R. Park Inc. and Kopeco Inc., let you know the reasons for my request.

Amongst a number of items not mentioned in the enclosed letter but about which I would like to ask you are details of the likely kelp harvesting risks in the Falklands in view of the recent statement of Mr. Shibata of Nichimen Co. Ltd., Japan's leading kelp company.)

I will also be asking if it would be too late for Ocean Labs Inc. to be able to bid for at least a part of the Kelp Islands/Camber areas and if not, are there any other areas available where economic prospects would be reasonable and competitive?

Yours faithfully,

*Fred Jones*  
F. Jones.-

*Note  
Spoke with Jones who  
wanted but did not get a copy  
of the Alexander agreement  
20/4*





*AY B/W 30/4*  
**Foreign and Commonwealth Office**  
 London SW1

Telephone 01- 930 3440

His Excellency Mr E G Lewis CMG OBE  
 Governor and Commander-in-Chief  
 FALKLAND ISLANDS

Your reference

Our reference *HMF7/2*

Date 13 April 1973

*Dear Governor.*

**ALGINATE INDUSTRIES LTD**

1. Thank you for your letters of 2 and 21 March. I had a long chat with Comben after receiving your first letter. He told me that he had grave doubts that the double depreciation proposal would work unless it could be shown that the Falkland Islands subsidiary was entirely independent of the parent company in the United Kingdom. By the very nature of the relationship this cannot be so. In the absence of Merton in the Far East, Stewart (the AIL secretary) confirmed that the company had abandoned the proposal, but seemed quite relaxed and was confident that Comben's new scheme would work.
2. From what Comben has now told you it seems that this, too, is going to be difficult, although Stewart (and that firm oozes euphoria) was confident that a liability to Falkland Islands tax on the interest payable (on the loan for capital equipment) could benefit both parties. When I first heard of this idea I thought it trifle unusual, but hesitated to argue with the experts.
3. Whatever Pery may have told you, I feel AIL are going to have difficulty raising the large amount of money they need, and I think we are going to be back with the old request for aid pretty soon. However, I hope to see Merton and Stewart after Easter and will keep you in the picture.

*Gavin Cur  
 Dawd.*

*P. A. / K. G. / M. G.*  
 D G F Hall  
 West Indian & Atlantic Dept



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40/1  
30/4

# ALGINATE INDUSTRIES

L I M I T E D

120, GEORGE STREET, OBAN, ARGYLLSHIRE. PA 34 5NT.



DIRECTORS:  
W. R. MERTON, Chairman.

R. R. MERTON  
R. CAMPBELL-PRESTON, } Managing  
O.B.E., M.C. } Directors.

A. C. W. NORMAN, O.B.E.  
R. H. McDOWELL

D. I. BANKES  
F. L. G. GRIFFITH-JONES  
M. H. C. PERY

TELEPHONE:  
OBAN 2055.

HEAD OFFICE

22 HENRIETTA STREET  
LONDON, WC2E 8NB

19th April, 1973.

E. G. Lewis, Esq., C.M.G., O.B.E.,  
Governor of the Falkland Islands,  
Government House,  
Stanley,  
Falkland Islands, South Atlantic,

Dear Governor,

Thank you for your letter of 29th March enclosing the copies of the Draft Legislation amending your Income Tax Ordinance. We are very impressed by the speed with which your Government has acted and assure you that it is not for lack of effort that we have not yet come back with any firm proposals. We have had two meetings with Mr. Comben and at present we are in the process of preparing financial forecasts and cash flows for the next ten years to establish the effect of the various possible schemes that we have been discussing with Mr. Comben.

The final estimates for the Capital Expenditure were not available in January as they were dependent upon various points which were clarified during my visit. The total sum works out to be very much higher than our earlier forecasts and this in itself has involved some fairly extensive rethinking as to how the whole project will be financed.

Ralph Merton will be away in the States immediately after Easter but we have further Meetings arranged with Mr. Comben in early May and I think we should have more to report then.

Yours sincerely,

M.H.C. Pery.

*Michael Pery*

40/1  
P.A.  
H/5



Alginates File  
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Application for British Technical Assistance

Provision of an Expert

Government of the Falkland Islands

1. Type of appointment: Expert to advise on pollution, erosion and other risks following the establishment of a calcium Alginates production plant in Stanley.
2. Number required: One
3. Authority to whom expert responsible: Chief Secretary, Falkland Islands Government
4. Date required: As soon as possible
5. Duration of appointment: Three months (perhaps longer)
6. (a) Background to and description of project for which expert required: Alginates Industries Ltd. are actively investigating the possibility of establishing an industry in the Falklands. Advice is needed as to whether (a) the cropping of seaweed round the shores of the Colony will alter the environment and cause erosion or other undesirable effects and (b) whether the calcium alginates production plant which will produce and pump into Port William a million gallons of effluent each day will cause harmful pollution.  
  
(b) Details of any previous application to fill vacancy through United Nations or other source. ---  
  
(c) Is the vacancy on the regular establishment of a Government Department or other institution? ---  
  
(d) Additional information: The expert will need to visit the factories established by Alginates Industries Ltd. in Scotland, and also the Kelco establishment in California where it is understood that operations are very similar to those expected in the Falklands and where it is thought that undesirable side-effects have been felt.
7. Essential qualifications and experience required: Degree in biology and relevant experience
8. Age limits: 25 - 60
9. Full details of the duties of the expert: Expert will act as a Consultant and write a report for study by the Falkland Islands Government.
10. Associated staff: Supporting marine and/or agricultural staff will be provided as necessary to help with collection of samples and provide manual labour. No skilled personnel are available.

TERMS AND CONDITIONS OF APPOINTMENT

11. Actual place of employment: Expert will be based in Stanley
12. (a) Quarters  
  
Is suitable living accommodation provided? Yes - in hotel  
  
(b) Is accommodation suitable for a married man? Expert, if married, will come unaccompanied  
  
(c) /...

(c) Where quarters are not provided please give information about the availability of housing or hotel accommodation: Adequate hotel accommodation available

13. Allowances:

- (a) Daily allowance for food \_\_\_\_\_
- (b) Daily allowance for accommodation \_\_\_\_\_
- (c) Daily and nightly subsistence allowance rates when on duty away from headquarters \_\_\_\_\_
- (d) Internal travel allowance rates (or if a car is provided for official journeys?) Official transport available as required
- (e) Any other allowances \_\_\_\_\_

14. Will medical and dental treatment and hospital arrangements be provided free for the appointee? Yes

15. Will exemption be granted from payment of customs duties, income and other taxes? No.

Signed .....  
Acting Governor

On behalf of the Government of the Falkland Islands

Date: 15th June, 1973

FCO/5/12



RECORD OF A MEETING HELD AT THE  
FOREIGN AND COMMONWEALTH OFFICE  
ON 12 JUNE, 1973

Present:

Mr R R Merton	) Alginate Industries	Mr D G F Hall	) FCO
Mr A Stewart		Mr D C B Beaumont	

Mr Hall welcomed the visitors. Mr Merton said that, in consultation with Mr Comben and Mr Smith, his company's income tax adviser, he hoped he had found a way to go ahead with Alginates' proposed activities in the Falkland Islands. Briefly, this entitled the Governor enacting legislation to grant Alginates "pioneer status" and rewording the present UK/Falklands double taxation agreement. But before anything else could be done, it was essential to clear the scheme with all concerned and for Messrs Comben and Smith to obtain the approval of the Inland Revenue. Mr Hall agreed.

Mr Merton then outlined his proposals. Alginates would set up two wholly owned companies in the Falkland Islands:

- (a) a harvesting company
- (b) a manufacturing company

Control of (a) would lie in the Falkland Islands where policy would be laid down by a local board. Control of (b) would be in UK. Kelp would be gathered by the harvesting company who would sell it to the manufacturing company at a profit. The Falkland Islands Government would tax this profit which, together with the royalty, was estimated to realise revenue of almost double what had been envisaged under the original agreement. The profits of the manufacturing company would be liable to Falkland Islands tax at 40% and UK tax at 50%. But if Mr Merton's proposals were adopted, the manufacturing subsidiary would not actually pay tax in the Falklands. Nevertheless, Mr Merton

/hoped

hoped to persuade the Inland Revenue to permit Alginates to offset tax liable in the Falklands against UK tax meaning a net rate of 10% tax on the manufacturing company's profits. Mr Hall said he would explain all this to the Governor when he saw him on 13 June.

Mr Merton said it was impossible to predict with absolute accuracy exactly how fast the project would proceed. He therefore wished to amend the existing Agreement so that Alginates did not lose their exclusivity if, for some unforeseen reason, they had not processed the prescribed amount of kelp by 1979. Mr Hall said this was a matter for the Governor and he would raise it with him.

Mr Merton said Alginates needed to raise about £4½ million to finance the project and to be able to do this he had to persuade the Inland Revenue to accept his proposals. If they did, he thought CDC might then be interested. On the assumption the Inland Revenue endorsed his proposals, he expected operations to start during 1977 and to build up annually until 1989 by which time Alginates would have invested about £30 million in capital plant and equipment. If present forecasts proved correct, Alginates would be exporting 4-5000 tons of calcium alginate a year by 1980/81. They would have a work force of about 100 in the Falklands and require to charter a ship every two months. Revenue to the Falkland Islands Government was expected to rise to over £200,000 by 1986/87.



SSS  
RESTRICTED

Reference .....

Mr G Armstrong - DTEU

Colonel W H L Gordon - PI & C (ODA)

ALGINATE INDUSTRIES LTD

1. I attach a copy of a paper on the latest taxation proposals made by the company, and a copy of the record of a meeting held in WIAD on 12 June.
2. The Governor has not yet had an opportunity to study the papers but will do so shortly. In the meantime, I should be grateful for any comments you may have. The AIL paper has, of course, been prepared in consultation with Mr Comben, the Falkland Islands tax adviser.
3. Providing the Governor agrees the scheme the next step is for AIL to approach the Inland Revenue to get their approval. Thereafter, Falkland Islands legislation extending a "tax holiday" to the manufacturing subsidiary will be necessary, as will amendment of the existing UK/Falklands double taxation agreement.
4. The Governor is entitled to revoke the exclusivity of the Licence (authorising AIL to harvest kelp off the Falklands) if inter alia AIL fail to achieve in the two consecutive years immediately following the fifth anniversary of the grant of the licence (20 September 1972) an average production per annum of 4,000 metric tons of dried ~~melted~~ kelp. AIL now feel they will not be able to achieve this figure, and want the Governor to agree to amend the licence to preserve its exclusivity. AIL would however continue to pay the royalty on the amount of dried ~~melted~~ kelp presently stipulated.
5. Mr Merton has told us that when his tax proposals are agreed by all concerned he will begin looking for financial backing for the project. This might entail an approach to CDC and he would welcome our help over this.

D G F Hall  
West Indian and  
Atlantic Department

ENCS.

cc: T M Layng Esq  
Chief Secretary  
Falklands  
(with enclosures)

RESTRICTED

ALGINATE INDUSTRIES LIMITED

FALKLAND ISLANDS TAXATION

1. Alginat Industries (AIL) manufactures in its factories in Scotland various alginate compounds which have a wide variety of uses in the textile printing, food, pharmaceutical, and many other industries.

Alginates are extracted from seaweed and the company has been granted by the Government of the Falkland Islands an exclusive license to harvest seaweed in the coastal waters of that Colony.

It is the company's present expectation that they will be able to exploit this license by manufacturing in the Colony from local seaweed the insoluble calcium alginate which would then be shipped to Scotland where it would be turned into the refined and soluble products which it is the company's business to market throughout the world.

2. In order to do this AIL would probably create two wholly-owned subsidiary companies, one to harvest seaweed and the other to produce calcium alginate in the Falkland Islands and sell it to the Parent Company.

The central management and control of the Harvesting Company would be in the Falkland Islands and the central management and control of the Manufacturing Company would be in the U.K. and the latter would therefore be subject to U.K. corporation tax at a rate which must be assumed to be 50 per cent.

As the law stands at present the Manufacturing Company would also be subject on its F.I. profits to the Colony income and profits taxes at 40 per cent. By virtue of the double taxation arrangements, however, credit would be allowed for these taxes against the U.K. corporation tax, with the result that the Manufacturing Company would in effect pay F.I. tax at 40 per cent but U.K. tax at only 10 per cent.

3. Owing to the heavy capital costs and the political uncertainties involved, AIL considers that this project is unlikely to be sufficiently profitable to obtain the necessary finance unless some alleviation of the tax burden can be obtained.

In order to achieve this and so that the Colony may have the benefits of the establishment of this new industry, it is proposed to ask the FI Government to promote legislation granting to the manufacturing subsidiary freedom from FI taxes (a "tax holiday") on lines which are familiar in many developing countries.

The duration of such a tax holiday and the terms on which it would be granted would, of course, have to be settled but application would only be made in respect of the Manufacturing Company.

Continued...



3. contd.

The object is to take advantage of section 497 (3) of the Income and Corporation Taxes Act which authorises the allowance of credit against corporation tax for tax of an overseas country even where the overseas tax has been foregone as a measure to promote development in that country. This can only be done where the relevant double taxation arrangements specifically provide for it and it would therefore be necessary for the UK/FI arrangements to be amended in this respect.

The UK Inland Revenue recently asked the Colony Government whether it wished to have the arrangements so amended. At that time the answer had to be that it was not possible because there was no tax holiday legislation in the Colony. It is assumed, however, that the Inland Revenue would not object if the necessary legislation were passed.

The outcome of all this would be that the Manufacturing Company would pay no tax in the Falklands during the tax holiday and would still only pay at 10 per cent in the U.K.

4. Although this relief would be a considerable advantage to the company it would deprive the F.I. Government of tax on the profits of the Manufacturing Company for the period of the Tax Holiday.

In order to compensate Government during the period of the tax holiday it is proposed to agree upon a transfer price of seaweed between the Harvesting Company and the Manufacturing Company so as to provide a profit in the hands of the Harvesting Company such that the tax thereon in the Falkland Islands amounts to £17 per ton of calcium alginate extracted therefrom.

5. It is, of course, very difficult to estimate in figures the results of carrying out these transactions. AIL have however prepared some figures (taking money at its present value) based on their expectation that by about 1981 the Manufacturing Company in the Falklands will be able to produce 5,000 tons of calcium alginate (CaAlg) in a year.

6. The profits that can be earned in the Colony by the Manufacturing Company producing CaAlg and selling it to the Parent Company depend upon the sale price per ton of CaAlg. The higher that price the higher will be the profits of the subsidiary in making CaAlg and the lower will be the profits of the parent in the finishing process and vice versa. The total pre-tax profits of the group will not be affected.

It is, however, in the interests of the Manufacturing Subsidiary that the transfer price should not be unduly low otherwise the tax benefit will not be obtained. If there were a general market in CaAlg it would be expected by tax departments that the price in that market would be adopted, and in fact the small quantities which are bought and sold change hands at a price around £1,250 per ton. This figure contains, however, both sales expenses and profit, so that a substantially lower figure of £760 is suggested (60%).

continued...

7. The suggestion is that the duration of the Tax Holiday should be not less than 10 years, and probably from 1980 to 1989 inclusive.

8. It is anticipated that the revenue accruing to the Falkland Islands Government from these arrangements will be about £80,000 in 1980/81 rising to over £200,000 around 1986/87 - this in addition to the weed royalty which in 1980/81 will be about £25,000 and in 1986/88 will be about £65,000.

RRM/mba  
8/11.6.73



557

Extract from a letter dated 26th June from Mr. John Comben to Mr. T. H. Lyng.

"AIL first. After complicated discussions we have now arrived at a scheme for giving them a subsidy at the expense of the British taxpayer and at the same time furnishing a substantial contribution to the public revenues of the Falklands. Everything depends upon our being able to persuade the Inland Revenue here that this is a proper use of the relevant UK legislation. We had a meeting at the FCO last Friday (David Hall, HE, Merton and self) at which we reached agreement among ourselves and I was commissioned to draft a Brief for FCO Ministers as a preliminary to going to the Revenue. I am working on that at present."

# ALGINATE INDUSTRIES

LIMITED

DIRECTORS:  
W. R. MERTON, Chairman.  
R. R. MERTON.  
R. CAMPBELL-PRESTON, } Managing  
O.B.E., M.C. } Directors.  
A. C. W. NORMAN, O.B.E.  
R. H. McDOWELL  
D. L. BANKES.  
THE RT. HON. THE VISCOUNT  
STUART OF FINDHORN.  
P.C., C.H., M.V.O., M.C.  
F. L. G. GRIFFITH-JONES  
M. H. C. PERY

BOX 214, PORT STANLEY, FALKLAND ISLANDS,  
SOUTH ATLANTIC  
TELEPHONE 220

HEAD OFFICE:  
22, HENRIETTA STREET,  
LONDON, W.C.2.  
ENGLAND



Monday 30th July 1973

ME T Layng Esq.  
Acting Governor  
Falkland Islands.

*To me Eals p*

Your Excellency.

On the 27th August next we are expecting the arrival of our company's Director of Engineering, Mr S G Donn with Messrs J Platt-Mills and C Turnham, consulting engineers of the firm of Humphrey & Glasgow. The object of their visit is to assess the installation of the projected factory for the production of alginates here.

It is hoped that with the preliminary surveying work which I have been carrying out in the meantime, that a week will suffice for them to be able to collect all the data required for the various projects envisaged, to be put out to tender.

On Friday last I received a telephone message from Mr Platt-Mills requesting that a temporary dam be constructed on the Murrell River sited at a convenient point near Furze Bush Pass or perhaps further down-stream from here, with sluice gates to allow the full volume of the water to pass freely at such time that a measuring slot is not being used. A recording instrument for measuring the flow volume will be installed here to obtain data necessary for planning the water supply for the proposed factory.

As it has been requested that I get the above finished in readiness for the arrival of these people, I therefore respectfully request your valued cooperation in giving us permission to go ahead with this work. It will be constructed with sand-filled bags and sealed with clay. A concrete platform on the up-stream side will support the metering device, and the height of the dam will not be such as to cause any flooding of land to the Westward of the site.

I have the honour to remain Sir,

Your most obedient servant.

*D F Gooch*

D F Gooch

Manager



THE QUEEN'S ARMS TO INDUSTRY



Ref: COM/29/2 C

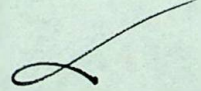
6th August 1973.

Dear Sir,

Please refer to your letter of 30th July in which you ask permission to construct a temporary dam near Furze Bush Pass on the Murrell River.

2. Government has no objection to this being done as long as the dam does not raise the river level so as to deepen the fords traditionally used to cross the river. You will, however, wish to obtain the permission of the relevant land-owners, and if the site eventually chosen is on Crown Land, of the lessee Mr. Hills.

Yours faithfully,

  
(T. H. Layng)  
ACTING GOVERNOR

The Manager,  
Alginate Industries Ltd.,  
P.O. Box 214,  
Stanley.

c.c. Manager, Falkland Islands Co. Ltd.  
Mr. R. W. Hills, Stanley.

CB

From:

J. E. COMBEN, O.B.E.

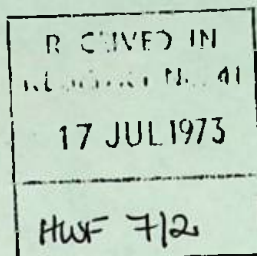
Telephone Crowborough 3606

*Encl. to Mr. ...  
16/7.*

C.  
1 ANGROVE HOUSE  
GOLDSMITH AVENUE  
CROWBOROUGH  
SUSSEX  
TN9 1RH

D. G. F. Hall Esq.,  
West Indian & Atlantic Department,  
Foreign and Commonwealth Office,  
London S.W.1.

13th July 1973



Alginate Industries Ltd.

I have been in correspondence with Ralph Merton about the possible loss by AIL of their exclusive rights if they fail to produce a specified tonnage by a certain date. The following wording is acceptable to him.

If AIL shall fail to achieve in the two consecutive years immediately following the fifth anniversary of the date of the Licence of 20th September 1972 an average production per annum of 4000 metric tons of dried milled kelp the Governor will not exercise the right granted to him by (b) of clause 4 of that Licence to revoke AIL's exclusivity provided that:

- (a) the Governor is satisfied at the end of those two years that AIL is actively pursuing the operation of harvesting and processing kelp in the Colony;
- (b) AIL has by the end of those two years incurred expenditure of at least £2 million on constructions, plant and equipment in the Colony; and
- (c) AIL undertakes to pay from the date of the fifth anniversary of the said Licence for each year in which its production falls short of 4000 tons the royalty which it would have been liable to pay if its production had been 4000 tons.

The suggestion is that the Governor should write a letter to AIL giving an undertaking in these terms. I hope this is satisfactory. I think it protects Government sufficiently and it ought to allay the fears of even the most suspicious of local politicians.

*John*  
*John*



B.  
PA DGTJ  
29/b.

ALGINATE INDUSTRIES LTD  
FALKLAND ISLANDS TAXATION

1. Alginate Industries Ltd. (AIL) is a British company which manufactures in its factories in Scotland various compounds of alginic acid. These compounds (alginates) have a wide variety of uses in the food, pharmaceutical, textile printing, ceramic and other industries. They are sold throughout the world and the company is a considerable earner of foreign currencies. Alginates are extracted from seaweed and, as the company's output increases, it will require supplies of weed beyond what can be obtained from its present sources (mainly the West coast of Scotland and Ireland). It has already been granted by the Government of the Falkland Islands an exclusive license to harvest (in exchange for royalty payments) the seaweed in the coastal waters of that Colony and it hopes that in about ten years time it will be producing more alginates from its Falklands weed than from its European sources.

2. It would not be economic to transport the seaweed to Scotland and it is not practicable to manufacture the end-products in the Falklands. AIL's proposal is to erect in the Colony buildings and plant to make from local weed the insoluble calcium alginate which is of little use in itself but which can be shipped to Scotland to be turned into the various alginates which are marketed.

3. AIL has drawn up a detailed forecast covering the seventeen years from 1973 to 1989. This envisages that the company's output of alginates will rise from its present figure of 6,400 tons to 22,800 tons in 1989. Out of this latter quantity 13,100 tons are expected to be derived from Falklands seaweed. In order to process this amount it is expected that the capital investment in the Colony by the same date will be - at present prices - £18 million. Even if this involves an unduly optimistic forecast of expansion it is nevertheless clear that there will be a substantial undertaking on the shores of Stanley Harbour consisting of special craft for cutting the weed, a dam to create a fresh-water reservoir and electrically operated drying and chemical plant. A staff of about 100 will ultimately be employed.

4. Most of the money to pay for these installations will have to be raised by borrowing and the company consider that, owing to the high costs involved and the element of political uncertainty, they are not likely to be able to attract investors' money unless they can obtain some alleviation of the Income Tax burden. They wish to do this by making use of the U.K. legislation which grants credit against Corporation Tax for tax of a developing country which is foregone as a measure of encouragement to pioneer industries.

5. The legislation in question is now contained in Section 497(3) Income and Corporation Taxes Act 1970. In its original form this was passed as a result of the policy of developing countries of granting "tax holidays" to pioneer industries which they wished to encourage. British concerns setting up such industries found that the tax holiday was of no advantage to them because, under the arrangements for the avoidance of double taxation, they would have the tax of the developing country deducted from their U.K. tax in any event. Section 497(3) therefore provides that relief can be given for the tax of the developing country which the British concern would have had to pay if it had not been granted a holiday. Thus a British company obtains a reduction of its U.K. tax bill by the amount of the tax of the developing country which it has been excused from paying.

6. It is a condition of this allowance of credit for tax not paid that the double taxation agreement between the U.K. and the developing country shall specify the provisions under which the tax holiday is given. The possibility of doing this was raised recently by the Board of Inland Revenue when the need arose for a routine amendment of the agreement between the U.K. and the Falkland Islands. Nothing could be done however since there has never been any tax holiday legislation in the Falklands. It is assumed from the fact that they raised it that the Revenue are willing in principle that the agreement should be extended in this way.

7. AIL's request is that legislation should be promoted in the Falkland Islands authorising the Governor in Council to grant, subject to certain safeguards, tax holidays of up to ten years to pioneer industries. The legislation would follow a pattern which has become common in the developing countries. AIL will then apply for such a holiday, starting with the year (at present estimated to be 1980) when they expect to start to earn profits. For this purpose AIL will form a wholly-owned subsidiary company carrying on business in the Falklands and so subject (apart from the tax holiday) to Falkland Islands tax on its profits. Its technical residence will be in the U.K. so that it will also be subject to U.K. Corporation Tax. Taking the rate of Falkland Islands tax to be 40 per cent and U.K. tax to be 50 per cent the combined results of the tax holiday and the double taxation arrangements will be that the company will pay tax at only 10 per cent for ten years.

8. This will provide AIL with the inducement which it needs but the Government of the Falklands cannot afford to dispense entirely with the tax on the local profits of the subsidiary. In order that a reasonable contribution shall be made to public revenues it is proposed that AIL shall form two local subsidiaries, one of which will not claim a tax holiday. This one will be a harvesting company (HC) which will be resident in the Colony and



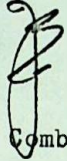
will confine its activities to the harvesting of seaweed in specially designed craft. It will sell this weed to the other company which will be the manufacturing company (MC). This latter company will make calcium alginate which it will sell to AIL for final processing in Scotland. HC will not apply for a tax holiday but will pay Falkland Islands tax on its profits. MC will apply for a holiday and will claim double taxation relief for tax which it will not have paid.

9. The amount of the benefit which MC (and hence the whole AIL group) will obtain from the exploitation of this device will be equal to the Falkland Islands tax on its profits. The amount of those profits will depend upon the price at which it sells calcium alginate to AIL. For their own internal purposes the companies can of course adopt any figure they like since there will be identity of interest. The Board of Inland Revenue (who will be footing the bill) will probably require however that the price shall be one which would have been paid between independent companies operating at arm's length. There is no general market in calcium alginate from which such a price could be derived. It is only being made in this instance as an intermediate stage for convenience of transport. But AIL has received a few requests for small quantities which it has been able to sell at a high price since the material is not generally available; and it is this high price which AIL will be asking the Inland Revenue to accept for tax purposes although they admit that they could not economically produce the alginates which they sell if they had to manufacture them from calcium alginate bought at such a price.

10. Similarly, the contribution that HC will make to the public revenues of the Falklands must depend upon the price at which it sells wet seaweed to MC. In this case however it has proved to be possible to work backwards. During earlier negotiations on a different scheme a figure of £17 per ton of calcium alginate exported emerged as being a reasonable contribution to Government revenues. It is proposed therefore to sell wet seaweed to MC at such a price as will result in the payment in tax of £17 per ton of calcium alginate. Any such figure would have to be scaled up to allow for future inflation but, on the present value of money and making a cautious estimate of output, it seems likely that HC would be contributing over £100,000 per annum to Government during the ten years of MC's tax holiday. This is additional to royalty payments under the seaweed license.

11. It is clear that a flourishing alginates industry in the Falklands will be a great advantage to the Colony. Even under the foregoing scheme (which is mainly designed to furnish a "subsidy" to AIL out of U.K. funds)

the industry will make, in relation to the size of the Colony's budget, a very large contribution to public revenue. The size of AIL's "subsidy" will largely depend upon the transfer price of calcium alginate which they can persuade the Inland Revenue here to accept. If that price is high they will not want it to continue when the tax holiday is over and they are paying Falkland Islands tax. At present the matter is one to be settled between AIL and Somerset House.

  
J. E. Comben



*Duplicate*

Mr Hall (through Mr Armstrong)  
(West Indian & Atlantic Dept, FCO)

cc Mr Read (DTI)  
Mr Reidy (ECGD)  
Mr Bleach (Treasury)  
Mr Ryan (Bank)  
Mr Gordon (ODA)

We have duly received an application (1) from Alginate Industries Ltd for support under our Pre-Investment Studies Scheme for their proposed Falkland Islands seaweed project. The application summarizes the project, which is only too well known to you, and the proposals from Humphreys & Glasgow Ltd at (12/3) outline the scope of the study. (I should add that additional copies of the H & G proposals are not available for circulation to other recipients of this Minute because the firm is not prepared to let us have more than one copy.)

2. In general terms, this application falls well within the scope of our Scheme, which is of course designed to promote the flow of British private capital into economically valuable projects in developing countries. The company itself is clearly eligible, and it is proposing to invest very substantial sums from this country. Subject to correction, the project seems to be of high developmental value in that it will (if it materialized) give the Falklands a major new source of revenue and exports, using an otherwise useless natural resource, and bringing a modest amount of new employment and skills. The study which it is proposed to commission from Humphreys & Glasgow seems in general soundly conceived. The one aspect which seems immediately unsatisfactory concerns the cost estimates. The bulk of these consist of two unexplained lump sum fees of \$17,000 and \$18,000: even if AIL are otherwise prepared to accept this, we shall need a detailed breakdown of the fees if we are to enter into a commitment liability to pay half of them.

3. The only major source of doubt about the project itself seems to me to arise from the possibility that, even if the study goes well, AIL may not be able to finance the project. As we understand it, the requirement is for \$2.4m for plant, equipment and services, \$0.6m for design and contracting work, \$0.4m for two harvesting ships, \$0.3m for shipping the equipment out, \$0.3m for housing and \$1m working capital. Paragraph 16 of our Scheme booklet states that "evidence will ... be required that sufficient funds are likely to be available ..... (so far as it is possible to judge this) to finance the establishment of the eventual overseas enterprise". AIL's application states that they do not know at present how they will raise all the necessary capital. Their reasons for preferring 100% control of the investment are probably sound, but this carries the consequence that they will have themselves to raise most considerably in excess of their current resources. It may be that AIL will be able to interest, for instance, the CDC in financing the necessary housing, and merchant banks in financing other aspects of the project: but the fact that they still seem to nurture hopes of capital aid on a scale which they have been told is out of the question does not suggest that they have yet got any concrete plans.

4. We would not wish to press this point too far: clearly the study itself will be an important element in their attempts to secure finance. Nevertheless we need to be reasonably clear that the project is not a non-starter from the

/outset,

COMMERCIAL - IN CONFIDENCE

outlet, and we should welcome your advice on this in the light both of your discussion with the firm and of your knowledge of the help which the Falkland Islands Government is prepared to give. One means by which AIL hope to raise capital before commencing the project is evidently by becoming a public company; and we should welcome DTI comments on this. We should also welcome ECUO comments on the potential availability of export credit guarantees, as well as investment insurance, for the project.

5. If you consider that the application merits support, the next step will be to seek the Governor's agreement. In the light of your Minute of 19 June, would you be able to bring these papers to his attention while he is in London (otherwise I will make contact in whatever way you think preferable)? What we should welcome is the Governor's confirmation that - if this is the case - the proposed study and in principle the ultimate investment are acceptable to the Falkland Islands Government. I attach duplicate copies of the papers in case you need them (the Governor has evidently already been "lent" a copy of the Humphreys & Glasgow proposals).

6. I am copying this minute and the application to those in Whitehall concerned with the scheme.

J. V. Kerby

July 1975

COMMERCIAL - IN CONFIDENCE



(1)

APPLICATION FOR PRE-INVESTMENT STUDIES SCHEME.

DETAILS OF FIRM.

(i) Company Address.

Alginate Industries Ltd., 22 Henrietta Street, London, W.C.2.

(ii) Nature of Business.

The Manufacture and Sale of Alginates. The Company has five Seaweed Collecting and Drying Factories situated in the Outer Hebrides and on the Western Coast of the Irish Republic which supply dried milled Seaweed to two Chemical Factories on the Mainland of Scotland (in Argyllshire and Ayrshire). Various Salts of Alginic Acid are extracted from the Seaweed and the Alginate compounds manufactured have a wide variety of uses in Textile Printing, Food, Pharmaceutical and many other Industries throughout the World. Some 80% of the total production is Exported and the Company has recently been awarded its Second Queen's Award for Export achievements.

As the Seaweed economically available around the shores of Britain is insufficient for the Company's expanding requirements, Seaweed Meal is imported from South Africa and South America and the Company is currently assisting the Icelandic Government in a joint venture for developing the Seaweed resources of Iceland.

The Company has had a steady record of doubling its production every five years over the last twentyfive years and it is estimated that Seaweed supplies economically available in the Northern Hemisphere are not sufficient for the Company's projected plans for expansion beyond 1976.

2.

PROJECT TO BE STUDIED.

(i) The Nature and Location of the Project.

The establishment at Port Stanley, Falkland Islands, of a Factory designed initially to produce around 2,500 tons per year of Calcium Alginate extracted from approx. 100,000 tons of wet *Macrocystis Pyrifera* Seaweed collected (by means of specially constructed Harvesting Craft) under Licence granted by the Government of the Falkland Islands.

A copy of the Agreement and Licence is enclosed.

The Calcium Alginate, which is not an end product in itself, will be shipped primarily to Scotland for further processing, purification and conversion into the many forms of marketable Alginates, whence the greater part will be Exported throughout the World.

(ii) Approximate Expected Capitalisation of Project.

The Capital cost of the project including purchase of the specialised Harvesting Craft, is likely to be in the region of 4.5 million pounds. In addition to this, at least a further 1.0 million pounds will have to be found to increase the working Capital to take into account the time delay between shipping Calcium Alginate from the Falkland Islands and the eventual sale of finished Alginates to the Customer.

(iii) Expected Capital Investments.

A Forecast and Cash Flow for the next ten years has been prepared which indicates that the Company cannot finance an undertaking of this size by its normal means - i.e. Flough back of Profit and Bank Overdraft. Discussions will be held shortly with CDC and other possible financial Partners to assess the most suitable means of obtaining the balance of finance required.

(iv) Participation of Local or Foreign Interests.

This possibility has not been ruled out but is unlikely in view of the fact that the product to be manufactured in Stanley (Calcium Alginate) is not a marketable commodity on a large scale basis and thus the Company would be the sole effective Market for the product manufactured by its Subsidiary in Stanley.



3.

HOST COUNTRY CONSIDERATIONS.

(i) Integration with Development Plans of Host Country.

This matter was discussed at some length with the Governor, Colonial Secretary and Members of EXCO with a Director of the Company during visits in 1969 and early 1973. It was widely accepted that the formation of a "second industry" would be thoroughly beneficial - particularly in view of the fluctuating and declining wool prices which had made the economy of the Islands somewhat precarious.

The Company has been in regular contact with the Governor concerning the way in which the plan has been developed and during 1972 the Company was granted by the Falkland Islands Government an exclusive Licence for harvesting Kelp on the South Eastern shores of East Falkland for a period of 50 years. In addition, the Falkland Islands Government has been kept fully aware of the Company's plans for the development of the "Camber Site" and has been represented at the various Meetings with the Ministry of Defence concerning the Lease of the Site and the Oil Storage facilities.

(ii) Possible Conflict with Host Government.

A copy of the Company's Agreement with the Falkland Islands Government for the Licence to harvest Kelp is attached. There is no question of any conflict of interests and the Falkland Islands Government has been most helpful in making arrangements for the Pilot Plant and generally providing assistance for the project. In the long term revenue from Kelp Royalties and Profits Taxation should become a very major factor in the Falkland Islands Budget.

4. SCOPE, COST AND TIMING OF STUDY.

Background.

- (a) As early as 1947 a Survey was carried out in conjunction with the P-E Consulting Group Ltd., the main object of which was to determine the amount and availability of supplies of Seaweed around the Falkland Islands and to assess the most suitable Site for a Seaweed Processing Factory. The result of this Survey showed that sufficient Seaweed was available to provide raw material for a large scale Alginate Industry. The timing was somewhat premature as, for the size of the Business as it was then, there was sufficient Seaweed around the Shores of the British Isles to allow for considerable expansion.
- (b) In September 1967 arrangements were made with the Government of the Falkland Islands to start procuring and despatching to Scotland monthly samples of *Macrocystis* Seaweed for analyses. This arrangement continued until in 1968 the Company appointed their own part-time Representatives in the Falklands.
- (c) In April 1969, Mr. M.H.C. Pery, a Director of the Company, visited the Falkland Islands with the object of re-investigating the establishment of a Seaweed Processing Factory and negotiating the Seaweed Harvesting Concessions with the Falkland Islands Government. (The Harvesting Licence and Concession was finally agreed in 1972).
- (d) In the Autumn of 1970 a Pilot Plant was established to produce dried milled Seaweed at Port Stanley and three resident staff engaged. Valuable experience was gained as a result of which it was concluded that it was essential from an economic point of view to divide the process enabling the first stage of Alginate Manufacture (that of producing Crude Calcium Alginate) to be carried out in the Falklands instead of merely producing dried milled seaweed as raw material.



- (e) A pre-requisite of being able to manufacture Calcium Alginate locally is the availability of sufficient water and studies were put in hand to investigate the construction of a barrage at the mouth of the Murrel River.
- Measurements were made on the spot and, on the basis of the information provided, a rough estimate was prepared by Consulting Engineers specialising in this subject.
- (f) Various Meetings have been held with the Ministry of Defence concerning the Lease of the "Camber Site" together with the accompanying Oil Storage Tanks. This Site is on the opposite side of Stanley Harbour to Port Stanley and is ideally suited as a Factory Site. This plan has the full agreement of the Falkland Islands Government.
- (g) Early in 1973 Mr. Pery accompanied by the Company's Chief Chemist, Mr. Drew, again visited Port Stanley with objectives as follows:-
- i. To confirm, in company with experts from California, the quantities of Macrocystis as described in the 1947 Survey.
  - ii. To engage additional Staff and arrange for the installation of a new Pilot Plant for manufacturing Calcium Alginate.
  - iii. To explain to the Falkland Islands Government the consequences of the Company's decision to manufacture Calcium Alginate as opposed to Exporting Dried Milled Seaweed.
- (h) During Mr. Pery's visits, in addition to Official discussions with Members of the Falkland Islands Government and Secretariate, Public Meetings were held in the Town Hall to ensure that the people of Stanley were fully aware of the Company's plans and intentions and to give people the opportunity to raise any questions that might be a cause for concern.

4. (Contd.)

(i) Scope of Studies.

It is intended that Messrs. Humphreys & Glasgow should undertake a detailed feasibility study to confirm or modify as required the initial findings and estimates as reported by the Company's Engineering Dept. Details of the proposals for the feasibility Study as suggested by Messrs. Humphreys & Glasgow are attached. It will be seen that they propose to make an initial study of the Company's process, to prepare a preliminary equipment list, plant layout and schedule of quantities for the projected Factory at Port Stanley, to examine the conditions on site and to prepare a report with a Budget price and programme.

(ii) Cost of Study.

The cost of the Study is detailed in Section 2 of the attached proposal and it will be seen that the total cost is estimated to be in the region of £35,000. to which should be added a sum of say £5,000. to cover the expense of our own Engineer in travelling to the Falkland Islands and working in conjunction with Humphreys & Glasgow.

(iii) Date of Commencement.

It is intended that the Study should be started at the beginning of August 1973 and it will take approximately six months to complete and prepare the final Report.



5. AGENCY OF STUDY

The Study will be undertaken by Messrs. Humphreys & Glasgow Ltd.,  
22 Carlisle Place, London, S.W.1. and one of the Company's  
Engineers will be seconded to work with Messrs. Humphreys & Glasgow.

GENERAL.

It is anticipated that the Revenue accruing to the Falkland Islands Government from establishing an Alginate Industry at Port Stanley should amount to approx. £100,000 per year in 1980 rising to over £250,000 per year in 1988. This is based on the best possible forecast for the growth in World demand for Alginates and the fact that the Company will supply the major part of this increased demand. This seems a reasonable assumption as the Company is now the largest Producer of Alginates in the World (accounting for approx. one third of the total supply) and, the Falkland Islands are one of the very few Areas in the World with sufficient Seaweed to sustain this scale of expansion. Competitive Alginate Producers are already in a position where expansion is curtailed by the lack of Seaweed available locally at an economic price.



Mr J V Kerby  
Private Investment and Consultancies Dept  
ODA E613

## ALGINATE INDUSTRIES LTD

1. Thank you for your minute of 3 July (on your file). I have taken the copy of this, and also that of the application for the Pre-Investment Studies Scheme, for our own file.
2. I have now had an opportunity of discussing the whole matter with the Governor and there is no doubt that AIL's proposed activities, if they come to fruition, will be of considerable importance to the economy of the Falkland Islands.
3. This Department associates itself with this view which has already been put into practical effect by the signing of an Agreement between the company and the Governor. We and the Governor are committed therefore to encouraging the company to go ahead with their scheme as rapidly as possible, with the proviso that no financial support will be available from the Falkland Islands development aid allocation. As you know, this has been made abundantly clear throughout the whole of the protracted discussions with the Company.
4. As you point out, the Company's inability to commence implementing the terms of the Agreement is occasioned by lack of finance and AIL feel that in order to attract investor's money they must secure some alleviation of their potential tax burden. To this end the Colony's and AIL's tax advisers have worked out a scheme for discussion with the Inland Revenue. I attach a copy of the proposals, but do not know if any progress has yet been made.
5. The Pre-Investment Study now under discussion appears to be the second essential step towards attracting would-be investors, and it has our support and that of the Falkland Islands Government. I attach the draft of a letter which the Governor proposes sending you in confirmation of this. If you approve it I will arrange to get his signature.
6. You point out that you need to be reasonably clear that the project is not a 'non-starter' from the outset. I can only comment that AIL appear determined to implement the terms of their Agreement with the Governor, but require considerable financial support before they can do so.
7. The assistance which the Falkland Islands Government has given, or is prepared to give, to AIL is set out in clauses 5, 6, 7 and 8 of the

/Agreement.

COMMERCIAL IN CONFIDENCE

Agreement. These read as follows:-

(5) THE Governor UNDERTAKES that during the term of this Agreement:-

(a) No action shall be taken which would render any obligations of or provisions applicable to AIL in respect of port dues or harbour rights more onerous than those provisions applicable to or obligations of other commercial undertakings in the Colony;

(b) No tax or impost shall be levied on AIL which has or may have a discriminatory effect upon the operations of AIL in the Colony.

(6) THE Governor AGREES that he will do all in his power to assist AIL in conducting its operations successfully.

(7) THE Governor (subject to the provisions of the Aliens Ordinance) will grant or procure to be granted all necessary passes permits authorisations and licences which may be required by AIL to permit the free movement of personnel and equipment to and from and within the Colony and to permit the employment of such labour as may be required for its operations.

(8) ALL harvesting research exploitation and processing operations carried out by AIL pursuant to the Agreement and the Licence shall be under the exclusive control and management of AIL.

The exclusive licence referred to therein has been issued to AIL.

8. The exclusivity of the licence is in jeopardy if AIL fail to achieve in the two consecutive years immediately following the fifth anniversary of the date of the licence (20 September 1972) an average production per annum of 4000 metric tons of dried milled kelp. The Company now feels that because of the lengthy negotiations for the necessary finance it will not be able to meet this production requirement, but has asked the Governor to agree a form of words to maintain the exclusivity of the licence despite this. I attach a copy of a letter from FIG's tax adviser, which sets out the details. As these amount to an amendment to the original licence it will be necessary to seek the agreement of the Falklands Islands Legislative Council and I am writing to the Acting Governor about this.

/9.



9. I am copying this minute to Mr Armstrong in DTEU.

D G F Hall  
West Indian and Atlantic Department  
(K228 MA405)

31 July 1973

Copies to:

Mr T H Layng  
Acting Governor  
Falkland Islands

Mr G A Armstrong  
DTEU

CONFIDENTIAL



Foreign and Commonwealth Office  
London SW1

Telephone 01-

T H Layng Esq  
Acting Governor  
Falkland Islands

Your reference

Our reference HWF 7/2

Date 2 August 1973

*Dear Tom,*

ALGINATES

1. The present state of play is that AIL have applied for support for a Pre-Investment Study. (A). They see this as a prerequisite to their approach to the City, and possibly to CDC, for the necessary finance for their project. The Governor of course, supports such a study. ODA have funds at their disposal for this sort of thing.
2. In parallel, John Comben and AIL's own tax adviser have been working on a scheme (B) to secure some alleviation of the company's potential tax burden, again with a view to attracting investors. This is to be presented to the Inland Revenue here, but I believe some snag has arisen. The Governor discussed this scheme in detail with Merton, Stewart and Comben and approved it in principle.
3. Neither the application for a Pre-Investment Study nor the tax alleviation scheme are for general publication. They require no action at your end for the time being.
4. AIL feel that their search for finance will delay implementation of the project to such an extent that they will not achieve the production minimum stipulated in paragraph 4(b)(i) of the Licence, by the due date. This could place the exclusivity of the licence in jeopardy, and the company have asked the Governor to indemnify them against this subject to certain conditions.
5. John Comben has produced a form of words to this effect (C) which appears to safeguard FIG's financial interest and which the Governor will accept subject to the approval of the Legislature. Could you please take this up and let me know the outcome? I think (C) is reasonably self-explanatory.

*Yours ever  
DGF*

D G F Hall  
West Indian and Atlantic Department

CONFIDENTIAL



Advance copy (Falkland Is.)  
(for Confidential Bag at 181200)

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File No. INF 7/2  
Department WIAD  
Drafted by D G F HALL  
(Block Capitals)  
Tel. Etn. HA 405

OUTWARD  
TELEGRAM  
DESKBY

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SAVING TO (for info) GOVERNOR FALKLAND ISLANDS

istribution:-

[TEXT]

ALGINATE INDUSTRIES

1. The following representatives of AIL and their consultants are visiting the Falkland Islands:-

Stuart Garland DOWN

Stuart Garland DOWN

Date of birth: 11th November 1933

Place of birth: Dunfermline, Scotland

Citizenship: British

Jonathan Lewis PLATT - TILD

Date of birth: 11th March 1939

Place of birth: London

Citizenship: British

ies to:-

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1575  
17/8

M.

UNCLASSIFIED

Christopher George TURHAM

Date of birth: 6th April 1938

Place of birth: Wendover

Citizenship: British

2. They arrive Buenos Aires 0850 hrs 24 August and leave on 26 August for Comodoro en route Stanley. They will be returning from Stanley on 3 September and thence to Buenos Aires, leaving on 4 September for London.

3. In the event of the Argentines requiring incorrectly that the three representatives are issued with travel cards I should be grateful if you would accord them every assistance. Photographs are being sent under separate cover in this bag.

DG Shaw.

NOTHING TO BE WRITTEN IN THIS MARGIN

UNCLASSIFIED



562  
SAVING TELEGRAM

BY BAG

FM F C O 171400Z

(HWF 7/2)

UNCLASSIFIED

TO BUENOS AIRES TELNO 6 SAVING OF 17 AUGUST 1973 AND INFO SAVING  
TO FAIKLAND ISLANDS

ALGINATE INDUSTRIES



THE FOLLOWING REPRESENTATIVES OF AIL AND THEIR CONSULTANTS ARE  
VISITING THE FALKLAND ISLANDS:--

STUART GARLAND DONN

DATE OF BIRTH:	11TH NOVEMBER 1933
PLACE OF BIRTH:	DUNFERMLINE, SCOTLAND
CITIZENSHIP:	BRITISH

JONATHAN LEWIS PLATTS-MILLS

DATE OF BIRTH:	11TH MARCH 1939
PLACE OF BIRTH:	LONDON
CITIZENSHIP:	BRITISH

CHRISTOPHER GEORGE TURNHAM

DATE OF BIRTH:	6TH APRIL 1938
PLACE OF BIRTH:	WENDOVER.
CITIZENSHIP:	BRITISH

2. THEY ARRIVE BUENOS AIRES 0950 HRS 24 AUGUST AND LEAVE ON  
26 AUGUST FOR COMODORO EN ROUTE STANLEY. THEY WILL BE RETURNING  
FROM STANLEY ON 3 SEPTEMBER AND THENCE TO BUENOS AIRES, LEAVING  
ON 4 SEPTEMBER FOR LONDON.

3. IN THE EVENT OF THE ARGENTINES REQUIRING INCORRECTLY THAT THE  
THREE REPRESENTATIVES ARE ISSUED WITH TRAVEL CARDS I SHOULD BE  
GRATEFUL IF YOU WOULD ACCORD THEM EVERY ASSISTANCE. PHOTOGRAPHS  
ARE BEING SENT UNDER SEPARATE COVER IN THIS BAG.

FILES  
WLAD



BRITISH EMBASSY

BUENOS AIRES

4/2

7 September 1973

T H Lyng Esq  
Acting Governor  
FALKLAND ISLANDS

Dear Tom,

## ALGINATE INDUSTRIES PROJECT

1. Messrs Dunn (of Alginates), Turnham and Platts-Mills (of Humphrey and Glasgow) - consulting engineers for the Alginates plant - called at the Embassy on their return from Stanley. Their interest in so doing was a commercial enquiry of sorts, ie if it turned out to be cheaper to import Argentine labour to the Falklands for work on the construction and operation of the Alginates plant (local labour being so scarce), would this: (a) be difficult to secure, and (b) cause any problems. As to the former, Peter Voller of Commercial Department was able to say that the recruitment of labour usually presented no problem. As to the latter, I pointed out that the employment of a gang of Argentine labourers up to 100 strong for construction of the plant could indeed cause problems. Firstly, there was nothing in the framework of any existing agreement which covered such a team and I very much doubted if either HMG or the Argentine Government could consent to their employment without some form of cover. For instance, the Argentine Government would probably be unable to accept that such Argentines were taxed on their salaries by the Falkland Islands Government and vice versa.

2. As to the team for the operation of the completed plant, Mr Dunn explained that they could hope to recruit some people locally, would bring a further number of trained technicians from UK and the rest they might hope to recruit in Argentina. Since the project is a long term one, the Argentines would be expected to be properly trained by Alginates and take up residence in the Falklands. The numbers involved would be about 80 (or say 200-300 including families). Quite apart from the question of whether Alginates could hope to find 80 Argentines with families willing to settle in the Falklands, I pointed out that this would be something like a 30 per cent increase in the total population of Stanley and it was

/doubtful





- 2 -

doubtful if it would be acceptable to the Falkland Islands Government. Once again, in the absence of an agreement, there could probably be major difficulties about terms of employment etc., (although perhaps this team could come under para 3 of the Joint Statement).

3. While both Peter Voller and I tried to be politely dampening, the trio seemed to treat the matter fairly light-heartedly just the same, Turnham, in particular, enquiring the terms of the regulations governing foreign investment in Argentina and whether these applied in the Falklands (!). I suggested to them that if they really wished to explore the serious possibilities of importing large quantities of Argentine labour to the Falklands, they should discuss the matter with FCO (I gave David Hall's name), who would be best placed to point out legal and other difficulties.

4. Since Blanco at some stage in discussions of the YPF agreement had mentioned that the RN tanks might be used to supply not only the Navy and BAS, but also the Alginates, I asked about their foreseen fuel requirements. The answer was that they would require gas-oil and hoped to have the use of the Navy tanks. No doubt this is not news.

yours GMD

Glynn

M G D Evans

cc: D G F Hall Esq  
WIAD/FCO

CONFIDENTIAL

- 2 -

5. We are aware that Perry has been negotiating with YPF for the supply of gasoil and with the Ministry of Defence for the lease of the Camber site and the hire of one R.N. tank. We have not heard, however, how far these negotiations have proceeded.

(T.H. Layng)

Miss M.G.D. Evans,  
British Embassy,  
Buenos Aires.

c.c. D.G.F. Hall, Esq., M.B.E.  
West Indian and Atlantic Department,  
Foreign and Commonwealth Office,  
London, S.W.1.

CONFIDENTIAL



11th September, 1973

Alginate Industries Project

Thank you for your letter 4/2 of 7th September which draws attention to a situation which we shall soon be obliged to face squarely.

2. We have known for a long time that both the permanent airfield project and the Alginates factory construction were going to require an imported labour force. Sir Michael Haddow pointed out about a year ago that if non-U.K. labour was to be used, the opportunity should be given to an Argentine force. He considered that to employ Brazilians or Chileans would cause great and needless offence. At the same time we must appreciate that passage expenses are such that the contractors for both projects are likely to press hard for South American rather than U.K. labour to be used.

3. We have already in the Colony some dozen or so Argentine citizens who abide by local legislation and pay Falklands income tax etc. If this number is increased in penny parcels, probably both H.M.G. and the Argentines would feel able to turn a blind eye to the situation. Even if larger numbers are involved, the matter could remain simply on a commercial level with the contractor first negotiating as necessary with the Argentine authorities for the supply of the bodies he needs, and then with us on the conditions under which they work here.

4. Your mention, however, of Alginates seeking to recruit Argentines for permanent positions in their operation here is new to us. Discussions hitherto have always been on the lines that managerial staff would be U.K. expatriates, foreman grades would be filled by Falkland Islanders and only an itinerant labour force, here perhaps on 12 or 24 month contracts, would be recruited from South America.

5./...

CONFIDENTIAL

PRE-INVESTMENT STUDY AGREEMENT

(Section 3 of the Overseas Investment  
and Export Guarantee Act 1972)

AN AGREEMENT made this ..... *fourth* ..... day of ..... *September* ..... 1973

Between ..... JOHN KERBY ..... for and on behalf of the  
Secretary of State for Foreign and Commonwealth Affairs, with the  
consent of the Treasury, and ALGINATE INDUSTRIES LIMITED .....  
whose registered office is at ..... 22 HENRIETTA STREET .....  
..... LONDON, WC2E 8NB .....

WHEREAS

1. The Proposer intends to carry out a study (hereinafter called "the study") described in Part I of the Annex hereto in order to determine on or before the ..... *30th* ..... day of ..... *JUNE* ..... 1974 (hereinafter called the "determination date") whether or not to make the investment of resources (hereinafter called "the investment") described in Part II of the said Annex.
2. The Proposer has made application under the provisions of section 3 of the Overseas Investment and Export Guarantees Act 1972, for reimbursement of part of the cost of the study if the Proposer decides, as a result of the study, not to make the investment.
3. The details of the cost breakdown of the estimated cost of the study are set out in Part III of the said Annex.
4. The Proposer has satisfied the Secretary of State that it has sufficient funds available to undertake the study and that the study does not conflict with the wishes of the Government of THE FALKLAND ISLANDS .....

*N.P.*  
*[Signature]*



IT IS HEREBY AGREED AS FOLLOWS:-

1. (1) Subject as hereinafter mentioned, if the Proposer, having diligently carried out and completed the study, decides not to make the investment, then, provided the Proposer --

(i) before the determination date, notifies in writing the Secretary of State of its decision;

(ii) delivers, together with the notification referred to in subparagraph (i) above, 4 copies of a report of the study, which report shall include --

(a) full details of the investigations carried out within the terms of the study and of the results of such investigations, excepting only details of trade secrets developed wholly outside the scope of the study;

(b) a cost breakdown of the actual cost incurred by the Proposer in carrying out the study; and

(c) the reasons which caused the decision by the Proposer not to make the investment; and

(iii) tenders to the Secretary of State such other information regarding the study and the results of the study as he may reasonably require;

the Secretary of State shall, if he is satisfied that the study has been diligently carried out and is of a proper scope and standard, pay to the Proposer a sum at the rate of 50 per centum of the actual cost of the study certified as being a true and correct statement of account by the independent auditors of the Proposer or, if that cost

is in excess of the estimated cost of the study, of the estimated cost of the study, or the sum of £25,000, whichever sum is the lesser.

(2) Subject as hereinafter mentioned, if the Proposer -

- (i) diligently carries out and completes the study and, before the determination date, notifies the Secretary of State in writing of its intention to make the investment,
- (ii) subsequently - complies with the provisions of items (ii)(a) and (b) and (iii) of subparagraph (1) of this paragraph, and
- (iii) within three years of the determination date gives notice to the Secretary of State that, for reasons contained therein it has become unable to make the investment as a result of force majeure or acts otherwise beyond the control of the Proposer,

then the Secretary of State shall, if he is satisfied (a) that force majeure or acts otherwise beyond the control of the Proposer have prevented it from making the investment and (b) that the study has been diligently carried out and is of a proper scope and standard, make a payment to the Proposer as provided in subparagraph (1) hereof.

(3) Subject as hereinafter mentioned, if the Proposer -

- (i) has commenced the study, and
  - (a) with the approval of the Secretary of State, has terminated the same prior to its completion, or
  - (b) satisfies the Secretary of State that it has become impossible to complete the study and,
- (ii) in either event, complies with the provisions of items (ii)(a) and (b) and (iii) of subparagraph (1) above,

then the Secretary of State shall, if he is satisfied that that part of the study which has been completed has been diligently carried out and is of a proper scope and standard, make the Proposer a pro rata payment



in respect of that part of the study which has been carried out, which pro rata payment shall be calculated having regard to the extent to which the study carried out bears to the projected study and shall in no case exceed the corresponding proportion of the estimated cost of the study or the corresponding proportion of £25,000, whichever is the lesser. The accounts submitted by the Proposer to the Secretary of State to show the extent to which the study carried out bears to the projected study shall be certified as being a true and correct statement of account by the independent auditors of the Proposer.

2. (1) If, at any time within three years after the determination date, the Proposer makes the investment in whole or in part and whether directly or indirectly it shall, within three months thereof, so inform the Secretary of State and, at the same time, shall repay to the Secretary of State any sums received by it under the provisions of paragraph 1 hereof.

(2) If the Proposer, having in any way made the investment, fails to comply with any of the requirements of subparagraph (1) of this paragraph, it shall, in addition to the repayment therein mentioned, pay to the Secretary of State, by way of liquidated damages, interest on the amount of the said repayment at the rate of £8 per centum per annum for the period from the date of making the investment to the date of making the repayment.

(3) For the purposes of this paragraph only the terms "the investment" shall include an investment of resources, made in consequence of, or having regard to, the study and similar to the investment, which was the subject matter of the study.

3. (1) The study and the report of the results of the study (hereinafter together called "the study information") shall be treated as confidential by the Secretary of State unless and until payment is made to the Proposer under the provisions of paragraph 1 hereof, in which case the study information shall become the property of the Secretary of State who may, with the prior approval of the Proposer (which approval shall not be unreasonably withheld), release all or any part of the study information to such third parties as the Secretary of State shall think fit. Provided that, after a period of three years from the date of the said payment, the Secretary of State may use such study information as he sees fit without having to obtain the prior approval of the Proposer.

(2) In the event that the Proposer uses consultants or other persons for the carrying out of any part of the study it shall ensure that such consultants or other persons shall not disclose any part of the study information to any person other than the Proposer or the Secretary of State.

4. In this Agreement -

the term "directly or indirectly" in relation to investment shall include investment by way of loan, trust, share or stock subscriptions or purchases or otherwise howsoever;

the term "cost breakdown" shall mean the full details of the cost referred to including the salaries of the personnel engaged in the study, the fees paid to consultants, per diem expenses for such personnel

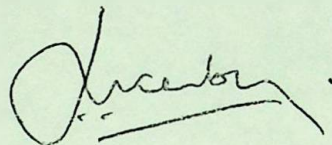


and consultants, reasonable travel and equipment carriage costs, head office costs clearly identified as being incurred solely as a result of the study and equipment costs;

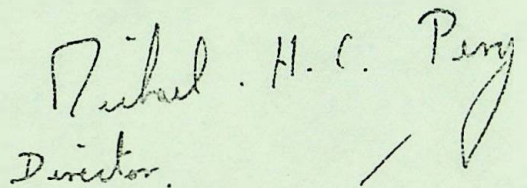
the term "it" or "its" where it relates to the Proposer shall be deemed to include the masculine and feminine genders.

IN WITNESS whereof the duly authorised representatives of the parties hereto have set their hands the day and year first above written

Signed by  
for and on behalf of the Secretary  
of State for Foreign and  
Commonwealth Affairs in the  
presence of: DK Swan



Signed by  
for and on behalf of ALGINATE  
INDUSTRIES  
.....  
LIMITED  
..... in the  
presence of: B. G. McEachern



## ANNEX

### PART I - DESCRIPTION OF STUDY

A feasibility study to be carried out on a project for the establishment of a seaweed processing factory at Port Stanley; Falkland Islands.

The study, which will be largely carried out by Messrs Humphreys and Glasgow Ltd will:

- i. check process qualifications;
- ii. analyse the power, services and effluent requirements associated with this;
- iii. define the plant, buildings and handling equipment required;
- iv. examine the site and define the construction tasks involved;
- v. prepare a budget for the cost of the whole project;
- vi. prepare a programme for the execution of the project;
- vii. advise on construction of dam for fresh water supply, and associated pumping and pipe line.

### PART II - DESCRIPTION OF INVESTMENT

Subject to the satisfactory completion of the study as described in PART I of this Annex, the Proposer intends to form a wholly owned Subsidiary in the Falkland Islands. The Proposer's participation will be financed by funds transferred from the United Kingdom.

### PART III - COST BREAKDOWN

#### 1. HUMPHREYS AND GLASGOW LTD

##### a) Work as per attached Project Programme

Preparatory work at Factories in Scotland and in Office at London (learning process preparing flow diagrams briefing about Project, etc).

Senior Project Engineers  
1600 hrs @ £3.75  
per hr = £14,000.

Engineering work, design work, specification and quantities estimating (mechanical, civil and electrical).

Junior Engineers  
2272 hrs @ £5.75  
per hr = £13,064.

Preparing initial and final Reports, Travel and Subsistence expenses during visits to Factories in Scotland.

= £1,000



Overseas Visits -  
Site Visits in Falkland Islands.

1 visit 2 men for 10 days ( 7 days F.I., 3 days Argentine)  
1 " 2 " " 17 " (14 " " 3 " " )

Salaries 54 days at £45 per day.	2,430
Expenses Overseas " £20 " "	1,080
4 Air fares at £495 return.	<u>1,980</u>

Total Estimate Humphreys and Glasgow Ltd. £33,554

2. SITE SURVEY WORK IN FALKLAND ISLANDS.

Survey Murrell River estuary at Dam site.  
Grid Survey of Factory site including core samples.  
Hydrographic Survey of Camber Harbour, etc.

Estimate for Survey work to be carried out by  
local Contractors under guidance of A.I.L.  
resident Manager. £1,500

3. ALGINATE INDUSTRIES LTD.

a) Liason work with Humphreys & Glasgow (explaining  
process, design, layouts etc.

Chief Engineer - 3 weeks at £120 per week	£360
Project Engineer - 5 " " £60 " "	300

b) Chief Engineer's visit to Falkland Islands with  
Humphreys and Glasgow.

10 days salary	200
Expenses at £20 per day.	200
1 return Air fare.	<u>495</u>

Total Estimate Alginat Industries. £1,555

Summary of Estimates:

Humphreys and Glasgow Ltd.	£33,554
Site Survey Work (Local Contractors).	1,500
Alginat Industries Ltd.	<u>1,555</u>
Total	<u>£36,609</u>

# ALGINATE INDUSTRIES

L I M I T E D

DIRECTORS:  
W. R. MERTON, Chairman.  
R. R. MERTON,  
R. CAMPBELL-PRESTON } Managing  
O.B.E., M.C. Directors

A. C. W. NORMAN, O.B.E.  
R. H. McDOWELL,  
D. L. BANKES,  
F. L. G. GRIFFITH-JONES,  
M. H. C. PERY,  
R. F. d'ERLANGER.

22, HENRIETTA STREET, LONDON, WC2E 8NB



TELEPHONE:  
01-836 0451/4.  
01-836 0142/3.  
TELEGRAMS:  
"ALGINATES."  
LONDON. WC 2"

CABLES:  
"ALGINATES. LONDON. W.C. 2"  
TELEX: 23815.

19th September, 1973

RRM/mba

T.H. Layng Esq.,  
Colonial Secretary,  
Port Stanley,  
Falkland Islands,  
South Atlantic.

Dear Mr. Layng,

Although you will doubtless have been kept informed of our talks with the Foreign Office regarding Tax Legislation, I thought you would be interested to hear from me how matters stand at the present time.

The enclosed summary prepared by John Comben, who is really responsible for the final shape of the proposals, is to be used as a basis upon which to approach the Inland Revenue Authorities.

Having obtained approval to the general principle of a tax holiday the Inland Revenue will then be approached in order to obtain agreement to the specific proposals relating to our activities, with special reference to agreeing figures for such matters as transfer prices.

Always assuming that all goes well up to this point we should then be in a position to embark upon the task of making the necessary arrangements for financing the project.

continued...



1968 & 1973

THE QUEEN'S AWARD TO EXPORTERS

Registered in England (No. 285993) Registered Office 22 Henrietta Street, London WC2E 8NB

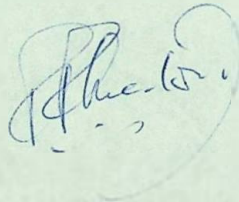


I am very sorry that the considerable trouble you took to prepare tax legislation in connection with the original scheme for Double Depreciation has given way to John Comben's present scheme but I have no doubt that we shall live to benefit from his experience.

In any case we are extremely grateful to you for the trouble which you took.

Please do not hesitate to let me know if there are any matters which do not appear to be entirely clear.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'R.R. Merton', enclosed within a faint, hand-drawn oval.

R.R.Merton

Enc.

L/2118/73 R 1458Z 27/9/73

FROM LONDON HQ  
TO STANLEY

AS/111/1 GOVERNOR/LAWS. HAVE NOW HAD FIRM OFFER FROM ALGINATE  
INDUSTRIES FOR SINGLE OFFICERS QUARTERS. WOULD LIKE TO ACCEPT IF  
YOU AGREE TO THE ASSIGNMENT OF LEASE BUT HAVE STILL TO OBTAIN  
CONSENT OF NERC.

RML/LC

*10 me on file H*





569

TELEX TO BAS LONDON

Friday 5th October, 1973

To Director -

568

Your AS/111/1. Single Officers' Quarters. I have no objection  
to assignment of lease.

ACTING GOVERNOR

(Telegram sent via BAS telex link

slb

5/10/73)

# ALGINATE INDUSTRIES

L I M I T E D  
G I R V A N · A Y R S H I R E

KA26 QJN



DIRECTORS:  
W. R. MERTON, Chairman.  
R. R. MERTON  
R. CAMPBELL-PRESTON, } Managing  
O.B.E., M.C. } Directors.  
A. C. W. NORMAN, O.B.E.  
R. H. McDOWELL  
D. L. BANKES  
F. L. G. GRIFFITH-JONES  
M. H. C. PERY.

TEL: TURNBERRY 281  
TELEGRAMS  
"ALGINATES GIRVAN TELEX"  
TELEX 77248

HEAD OFFICE  
22, HENRIETTA STREET,  
LONDON, WC2E 8NR

REGISTERED IN ENGLAND (No. 285993)  
REGISTERED OFFICE 22 HENRIETTA STREET, LONDON, WC2E 8NR

SGD/JM

19 September 1973

T Layng  
Chief Secretary  
Government House  
Falkland Islands

Dear Mr Layng

My colleagues and I have now returned home from a most enjoyable first visit to the Falkland Islands, and would like to thank you for the kind assistance offered to us during our stay, and for the opportunity to have several discussions with you.

Mr Pery and I are continuing our discussions with the M.O.D. regarding the availability of the Camber Site and are proposing to construct a new building adjacent to the existing fire equipment garage at the Camber to accommodate the fuel and various stores currently held in the coalsheds.

We are also interested in the purchase of the two Mirlees engines, generators and spare parts which we understand will shortly become redundant at your Power Station. Mr Pery informs me that negotiation should be started at the UK end, meanwhile we have asked that F Gooch should contact you for an opportunity to carry out a detailed inspection of their mechanical condition.

If you can spare time during your forthcoming visit to the U.K. we would be most pleased to see you at our Head Office in London or either of our factories in Scotland.

Thank you again for your kind assistance.

Yours sincerely

*S.G. Donn*  
S G Donn  
Company Chief Engineer





1, Angrove House,  
Goldsmith Avenue,  
Crowborough,  
Sussex TN6 1RH,  
England.

T. H. Layng Esq.,  
Chief Secretary,  
Falkland Islands.

24 September 1973

Dear Tom,

Alginat Industries Ltd.

I have been assuming until now that the FCO had kept you informed about AIL developments but a report I have just had from the company suggests that this may not be the case. At any rate it will do no harm if I give you a rapid summary of the position.

You will remember that when I was with you Mickey Pery came out with a "double depreciation" scheme by which the company hoped to obtain UK tax advantages. This scheme was flawed and had to be abandoned. I suggested an alternative which has since been modified at the suggestion of AIL's tax adviser and details were finally settled in an interview (at which the Governor was present) held at the FCO on 22nd June. At the end of that interview David Hall asked me to write a Brief for Ministers describing the scheme. This I did and assumed that a copy would be sent out to you. It now seems possible that you have in fact never seen it. It was agreed with AIL and I understand that they are immediately sending one of their copies to you. It describes in non-technical language the scheme we have devised.

AIL operate in a "development area" of the UK (west coast of Scotland) and so are conditioned to receiving UK tax concessions. They allege that they could not operate successfully in the Falklands if they had to bear the full burden of UK tax on their FI profits. It is proposed therefore that they should make use of the provision in UK tax law which authorises the UK Revenue to give a credit against UK tax for tax of another country which has been foregone by that country in order to encourage a pioneer industry. This means that the company gets something for nothing and virtually receives a grant from the UK Revenue. If AIL formed a subsidiary in the Falklands which wanted to take advantage of this provision the following steps would have to be taken:

- a. You would have to pass an Ordinance giving the Governor in Council power to grant a tax holiday for a limited period (say ten years) to a company suitably qualified and starting a pioneer industry;
- b. AIL's subsidiary would have to apply for and be granted such a tax holiday;
- c. The UK/FI double taxation agreement would have to be amended to provide for relief against the subsidiary's UK tax equal to the tax you have foregone.

This, of course, would be fine for the subsidiary company but it would deprive the FI Government of all tax on the local profits. What is now proposed therefore is that AIL should form two subsidiaries in the Falklands, a harvesting company (HC) which will collect seaweed and sell it to a manufacturing company (MC) which will make calcium alginate to be sold to AIL in Scotland. Of these, only MC will apply for the tax holiday. HC will pay FI tax.

The real difficulty comes when we get down to figures. The profits of HC (on which FI tax will be paid) will depend upon the price at which it sells wet seaweed to MC. The profits of MC (on which the UK tax relief will be based) will depend on the price at which it sells CaAlg to AIL. There is no established market in either of these commodities. AIL will want to pitch the price of CaAlg as high as possible since the higher that price the greater their tax relief. This, however, is entirely a matter



between them and the Inland Revenue here and I shall keep severely out of it. As regards the price at which HC will sell seaweed to MC, this will be fixed at such a figure as will result in the payment to the FI Government in tax of £17 per ton of CaAlg exported. If everything goes according to plan this should give you a tax revenue from HC of some £100,000 a year when the scheme really gets going - and this will be in addition to the royalties payable for harvesting the weed.

I have drawn up a draft of a section to go in your Income Tax Ordinance giving the Governor in Council power, subject to certain safeguards, to grant tax holidays in approved cases. I enclose a copy of this draft. What do you think of it? And, in particular, do you think you will be able to get it through? Of course it is in general terms and it may be that there will later be other pioneer industries asking for its benefits. But at the moment we are thinking of AIL and the scheme described above. I hope that nobody is going to be greedy and try to get FI tax on the whole of AIL's local profits. If they are satisfied with tax on the profits of HC only they will, in my opinion, get a very reasonable contribution to Government together with the side benefits of an entirely new industry and the hearty goodwill of its directors. If they ask for too much they may imperil the whole thing.

I must also go to the Inland Revenue here and ask them whether they would be willing, if you passed legislation in the terms of my draft, to make the necessary amendments to the double taxation agreement. In view of the slowness of communications I do not propose to wait for your comments but I am now sending the draft to the Revenue asking in general terms if they will co-operate. I do not expect any difficulty and if they agree in principle the first formal step will be for you to pass the legislation. The agreement cannot be altered until this is done since it has to refer to the legislation by quoting section and Ordinance.

I think that is all for the time being. As you can see, this is a pretty considerable undertaking. If you opened me up at the moment you would find Alginates written on my heart (crossed with Pobjoy).

Yours.  
John



FALKLAND ISLANDS INCOME TAX

PIONEER COMPANIES

Pioneer  
companies.

- . - (1) Where, having regard to the economic and other benefits likely to accrue to the Colony, the Governor in Council is of the opinion that it would be in the public interest to do so, he may by order declare any company which is carrying on or intends to carry on a trade or business in the Colony to be a pioneer company whereupon the provisions of this section shall apply to such company either in full or to such modified extent and upon such conditions as the Governor in Council may by such order specify:

Provided that a company shall not be declared to be a pioneer company if the Governor in Council is not satisfied that the capital to be effectively employed in the trade or business in the Colony will be at least two hundred thousand pounds.

(2) The profits from the trade or business in the Colony of a pioneer company shall be exempt from the tax for such period (in this section referred to as a "tax concession period") not exceeding ten years as may be specified in the order made under subsection (1).

(3) Application for an order under this section shall be made to the Governor through the Financial Secretary by the company which carries on or intends to carry on the trade or business in the Colony or by any other person intending to be concerned in the formation of such a company.

(4) Every application made under subsection (3) shall contain the following particulars -

- (a) the nature of the trade or business which is carried on or intended to be carried on;
- (b) an estimate of the benefits to the economy to be expected from such trade or business;
- (c) the estimated amount and purpose of the capital to be employed in the trade or business;
- (d) the conditions under which workers will be employed, their numbers and provisions for their housing; and
- (e) such other particulars as the Financial Secretary may require.

(5) An order made under this section may be revoked or amended with or without the agreement of the company in any case where it appears to the Governor in Council that any of the particulars supplied by the applicant in or in connection with his application were recklessly or wilfully erroneous or misleading.

(6) The terms of any order or of the revocation or amendment of any order made under this section shall be published in the Colony in such manner as the Financial Secretary shall direct.



(7) Upon the agreement by the Commissioner of the amount of the profits of a pioneer company to be exempt from the tax under this section or upon the final determination of that amount on appeal, the amount thereof shall be credited by the company to a special account and the amount of any dividend paid out of that account to the company's shareholders shall be exempt from the tax in the hands of such shareholders;

Provided that no such exemption shall apply to a dividend declared more than two years after the end of the company's tax concession period.



572

# CONFIDENTIAL

## EXECUTIVE COUNCIL

No. 34/73

### Alginate Industries Ltd.

The exclusive licence issued to Alginates Ltd. is conditional and if the Company fails to achieve an average annual production of 3,000 tons of dried milled kelp during the two years immediately following the 20th September 1977 the exclusivity of the licence is in jeopardy. X 500 d

2. Negotiations are taking place in London for Alginates Ltd. to obtain the necessary finance to proceed with their business in the Colony, but Mr. R. R. Merton, the Managing Director of Alginates Ltd. has informed Government that it is impossible to predict with absolute accuracy exactly how fast their local activities will proceed, and in view of this has asked to amend the existing agreement so that Alginates Ltd. do not lose their exclusivity if, for some unforeseen reason, they do not process the prescribed amount of kelp by the date dictated in the licence.

X / 3. Council is asked to advise that a letter from His Excellency the Governor be sent to Alginates Ltd. to satisfy Mr. Merton's request. The letter has been drafted by the Colony's Income Tax Adviser, Mr. John Comben, who considers that the terms will protect Government sufficiently. The effect is that if AIL shall fail to achieve in the two consecutive years immediately following the fifth anniversary of the date of the Licence of 20th September, 1972 an average production per annum of 4,000 metric tons of dried milled kelp the Governor will not exercise the right granted to him by (b) of clause 4 of that Licence to revoke AIL's exclusivity provided that:

(a) the Governor is satisfied at the end of those two years that AIL is actively pursuing the operation of harvesting and processing kelp in the Colony;

(b) AIL has by the end of those two years incurred expenditure of at least £2 million on constructions, plant and equipment in the Colony; and

(c) AIL undertakes to pay from the date of the fifth anniversary of the said Licence for each year in which its production falls short of 4,000 tons the royalty which it would have been liable to pay if its production had been 4,000 tons.

The Secretariat,  
Stanley.

Ref: COM/29/20

24th September 1973.

Ref: CCK/29/2

17th October 1973.

Thank you for your letter of 19th September, and I am most grateful to you for the various enclosures which you sent bringing me up to date with recent developments in London.

2. By the same mail I received letters from John Comben, Stuart Donn and David Hall, so I think that I now have the full picture.

3. Next week, we are taking to Council the device worked out by John Comben whereby the exclusivity of your licence in the Falklands will be safeguarded. We do not anticipate any difficulty in obtaining approval for this, but we shall of course advise you of the outcome of the meeting in due course.

4. The Governor returns on Monday, and the following week I hope to get away on a portion of the leave still due to me from my service in the Pacific. I expect to be back here around Christmas.

Yours sincerely,

(T. E. Layne)  
Acting Governor

R. R. Merton, Esq.,  
Managing Director,  
Alcinate Industries,  
22 Henrietta Street,  
London WC2E 8NB.

NS00

J. E. Comben, Esq.,  
1 Angrove House,  
Goldsmith Avenue,  
Crowborough,  
Sussex TN6 1RH,  
England.

CB



17th October 1973.

Thank you very much for your letter of 19th September. I am glad that you enjoyed your visit to the Falklands. The weather, miraculously, has remained hot and sunny ever since you left.

2. We shall be interested to hear, in due course, the outcome of your discussions with the Ministry of Defence concerning the Gamber site.

3. We are somewhat at a loss to understand your paragraph three. The two generators in which you are interested are the property of the Falkland Islands Government, and any negotiations for their purchase will need to be conducted with our Financial Secretary or myself. The ultimate decision on their sale rests with the Standing Finance Committee of our Legislature. There is nobody in London who has any locus standi on this, which is purely an internal matter.

4. I hope to get away on leave on the 29th, but as I am reluctant, having just survived a Falkland winter, to return to a UK one, I shall only be spending a week in England. Thus I doubt whether I shall have time to contact you or your London Office.

✓  
(T. H. Layng)

S. G. Dunn, Esq.,  
Alginate Industries,  
Girvan,  
Ayrshire, KA26 9JN,  
United Kingdom.

CB

*22/10*



# ALGINATE INDUSTRIES LIMITED

## REPORT BY THE DIRECTORS

and

## ACCOUNTS

for the year ended

31ST DECEMBER, 1972



THE QUEEN'S AWARD  
TO INDUSTRY 1968



THE QUEEN'S AWARD  
TO INDUSTRY 1973



# BOARD OF DIRECTORS

---

**Chairman:**

W. R. Merton

**Joint Managing Directors:**

R. R. Merton

R. M. T. Campbell-Preston, O.B.E., M.C.

R. H. McDowell

D. L. Banks

F. L. G. Griffith-Jones

M. H. C. Pery

R. F. d'Erlanger

---

**Secretary:**

D. G. Jones

---

**Registered Office:**

22, Henrietta Street,  
London, WC2E 8NB

---

**Auditors:**

Smallfield, Fitzhugh, Tillett & Co., *Chartered Accountants*,  
24, Portland Place, London, W1N 4AU.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Thirty-eighth Annual General Meeting of Alginat Industries Limited will be held at 22, Henrietta Street, London, W.C.2, on Thursday, the Seventeenth day of May, 1973 at 12 noon, for the following purposes:—

1. To receive and adopt the Directors' Report and the Statement of Accounts for the year ended 31st December, 1972.
2. To declare dividends.
3. To re-elect Directors.
4. To fix remuneration of the Auditors for the ensuing year.
5. To transact any other ordinary business.

A Member entitled to attend and vote at the above Meeting is entitled to appoint a Proxy to attend and on a poll vote instead of him, and that Proxy need not also be a Member.

By Order of the Board,

D. G. JONES,

*Secretary.*

22, Henrietta Street,  
London, WC2E 8NB

25th April, 1973.



# STATEMENT BY THE CHAIRMAN

It is with much regret that I have to report the resignation as a Director of Mr. Antony Norman at the end of last year. Mr. Norman was with the Company from its earliest beginnings and became a non-executive Director shortly after the end of the War. His resignation is occasioned solely by his decision to live abroad, but I know that he will remain keenly interested in the future of the Company.

Record sales and profits were achieved in 1972, in spite of considerable losses caused by the power crisis in the earlier part of the year. Once again the volume of export sales accounted for 78 per cent. of the total and this figure is likely to continue during the current year. I am sure you will be pleased to learn that following upon our success in 1968, The Queen's Award to Industry has again this year been conferred upon the Company in recognition of our export achievements. The floating of the £ last summer has increased the competitiveness of our products in overseas markets, although the advantages will not be fully felt until the second half of this year.

In February 1973 the capital of the Company was, as you know, reorganised in order to bring it more into line with the funds employed and to give the former Preferred Ordinary shareholders a more orthodox type of share. As a result the Preference dividend, which under the new tax regime is shown after deduction of tax, is increased by  $12\frac{1}{2}$  per cent. from the equivalent paid previously. In the case of the Ordinary dividend, the cash requirements of the Company do not permit any significant increase and the amount recommended is  $2\frac{1}{8}$  per cent. gross.

At the end of the year the high volume of sales had resulted in a decrease in stocks of alginates. You will remember that the year started with a larger stock of finished alginates than is usually carried. Nevertheless the value of total stocks shown in the Balance Sheet is higher than last year, partly due to the unit value of alginate stocks having increased and partly to an increase in the value of weed stocks and general stores.

Capital investment in 1972 reached the forecast figure of £542,000. With the increase in sales which occurred last year and the further increase of about 15 per cent. which is expected in 1973, it is necessary to provide considerable extra production capacity once again, with the result that the capital expenditure planned for 1973 will reach approximately £1,250,000. This will provide an increase in capacity of 17 per cent. by the first quarter of 1974, as well as preparing the way for further increases in the future.

This increase in production will require additional supplies of seaweed. All but a few small areas of the United Kingdom and Eire are now being harvested to the full and the two harvesting boats which operate in the Hebrides have made it possible to reach areas denied to land transport, albeit at extra cost. Already large quantities of seaweed are imported from Norway and elsewhere and additional supplies from these sources will be obtained to cater for the increase in production which can be foreseen over the next five years. Beyond that, however, it will be necessary to rely upon supplies from the Falkland Islands and in this connection I am pleased to report that the agreement with the Falkland Islands' Government, giving us exclusive rights to a large quantity of seaweed, has now been signed and work is proceeding on the next stage of the pilot plant.

The considerable increases in production and sales which are forecast will offset the rise in costs of labour, raw materials and chemicals, which must be expected to continue. There are at last some grounds for thinking that inflation in this country may be moderating for the time being and so far this has been achieved without impairing economic growth. For the first quarter of this year sales have easily outstripped those for last year and there is, therefore, every reason to expect a further increase in profit for the current year.

All the Company's various departments continued to develop satisfactorily during the year, and it has been decided to set up our own sales office in Germany at the end of this year, instead of selling through an agent. You will notice from the accounts that the cost of the Staff Bonus Scheme has come down by nearly £20,000 compared to 1971. This Scheme, which has been in operation for many years, was based on part of the increase in profits each year being paid as a cash bonus to the management at all levels in proportion to their salaries. Some time ago an overall limit of 20 per cent. of the gross profit was imposed but with the increase in staff qualifying for bonus it became impracticable to continue the old Scheme, and the opportunity was taken last year of incorporating part of the bonus into salaries and re-distributing the rest as a fixed percentage of the annual profit.

In conclusion, I am sure you would like me to express shareholders' thanks to the management and employees throughout the Company.

W. R. MERTON

*Chairman*



# REPORT BY THE DIRECTORS

For the year ended 31st December, 1972

The Directors submit herewith the Accounts of the Company for the year ended 31st December 1972.

	1972		1971	
	£	£	£	£
<b>1. Profits and Dividends</b>				
The net Profit of the Group for the year ended 31st December, 1972 after charging all working expenses amounted to		550,079		441,014
There is required as reserves:—				
For taxation on the profits for the year, including adjustments for previous years	48,552		116,684	
For a transfer to reserve in respect of taxation deferred by Capital Allowances	119,100		46,100	
		<u>167,652</u>		<u>162,784</u>
Leaving a Net Profit after Taxation and Transfer to Reserve of .....		382,427		278,230
Your Directors recommend that the following Dividends should be paid:				
7½% Cumulative Preference Shares of £1 each—a gross dividend of £49,065 on which £14,720 is payable to the Inland Revenue (1971—Gross)	34,345		43,613	
On the Ordinary Shares of 25p each—a gross dividend of 2½% equivalent to £20,565 on which £6,169 is payable to the Inland Revenue (1971—Gross)	14,396		20,162	
		<u>48,741</u>		<u>63,775</u>
Leaving an unappropriated balance of .....		333,686		214,455
To which must be added the unappropriated balance brought forward from last year .....		1,358,223		£1,143,768
		<u>1,691,909</u>		<u>£1,358,223</u>
Giving an unappropriated balance to be carried forward of .....		£1,691,909		£1,358,223

2. As explained in Note 6 on the Accounts, the Capital of the Company was reorganised on the 15th of February 1973 and of the unappropriated balance of £1,691,909 shewn above £1,269,645 was capitalised and was applied in paying up in full at par unissued Capital of the Company, leaving a balance of £422,264 to be carried forward.

## 3. Board of Directors

The Directors of the Company whose names appear on page two, were Directors during all of 1972. Mr. A. C. W. Norman resigned from the Board on the 31st December, 1972.

Mr. F. L. G. Griffith-Jones and Mr. M. H. C. Pery who retire by rotation in accordance with Articles 84 and 85 of the Articles of Association of the Company, offer themselves for re-election.

## 4. Directors' Interests in Shares of the Company

The Register kept by the Company for the purpose of Section 27 of the Companies Act 1967, shows that the number of Preferred Ordinary Shares and the number of Deferred Shares of the

Company in which the Directors of the Company and their families had an interest as at the 31st December 1972, is as follows:—

<i>Director</i>	<i>Class of Share</i>	<i>Holding at</i> <i>1st January, 1972</i>		<i>Holding at</i> <i>31st December, 1972</i>	
		<i>Beneficial Interest</i>	<i>Other Interest</i>	<i>Beneficial Interest</i>	<i>Other Interest</i>
Mr. D. L. Bankes	Preferred Ordinary	50	—	50	—
	Deferred	1	—	1	—
Mr. R. M. T. Campbell-Preston	Preferred Ordinary	—	1,354	—	1,354
	Deferred	3	1,957	3	1,957
Mr. R. H. McDowell	Preferred Ordinary	50	—	50	—
	Deferred	2	—	2	—
Mr. R. F. d'Erlanger	Preferred Ordinary	1,950	—	1,950	—
	Deferred	5,006	—	4,000	—
Mr. F. L. G. Griffith-Jones	Preferred Ordinary	1	—	1	—
	Deferred	1	—	1	—
Mr. R. R. Merton	Preferred Ordinary	—	4,209	—	4,209
	Deferred	2,918	3,048	2,918	3,048
Mr. W. R. Merton	Preferred Ordinary	—	7,803	—	7,803
	Deferred	4,113	14,946	4,113	14,946
Mr. A. C. W. Norman	Preferred Ordinary	—	—	—	—
	Deferred	1,716	—	1,716	—
Mr. M. H. C. Pery	Preferred Ordinary	—	—	1	—
	Deferred	—	—	—	—

No Director has a financial interest in any shares of subsidiary Companies.

There are no schemes to benefit Directors by enabling them to buy shares of the Company or any other Company.

None of the Directors had a beneficial interest in any contract to which the parent Company or a subsidiary was a party during the financial year.

#### 5. Principal Activities

The principal activities of the Company have continued to be the manufacture and sale of alginates, together with the collection and processing of seaweed as a raw material for alginate manufacture.

#### 6. Exports

Alginates to a value of £3,255,616 f.o.b. were exported during the year.

#### 7. Employees—Number and Remuneration

The average number of employees employed each week was 630, and the aggregate remuneration paid or payable to them for the year was £1,167,129.

#### 8. Political and Charitable Contributions

No political contributions were made during the year.

Charitable contributions made during the year amounted to £118.

#### 9. The position of the Company in connection with the close company provisions of the Finance Act 1965 has not yet been determined.

#### 10. The Auditors, Messrs. Smallfield, Fitzhugh, Tillett & Company, Chartered Accountants, have intimated their willingness to continue in office.

By order of the Board  
D. G. JONES  
*Secretary.*

London,  
25th April, 1973.



# ALGINATE INDUSTRIES LIMITED AND SUBSIDIARIES

BALANCE SHEET as at 31st December, 1972

	Notes	Alginat Industries Limited		The Group	
		1972 £	1971 £	1972 £	1971 £
<b>Assets Employed</b>					
Fixed Assets .....	1	1,377,823	1,058,621	1,537,861	1,218,256
Subsidiary Companies .....	2	127,449	165,681	—	—
Interest in Associated Company .....	3	13,900	14,695	13,900	14,695
<b>Current Assets:</b>					
Stocks and Stores .....	4	1,338,843	1,263,162	1,414,772	1,332,591
Debtors .....		1,022,110	894,404	1,036,923	927,148
Cash with Bankers and in Hand		2,169	1,920	8,585	14,526
		<b>2,363,122</b>	<b>2,159,486</b>	<b>2,460,280</b>	<b>2,274,265</b>
<b>Less Current Liabilities:</b>					
Creditors .....		474,991	418,653	521,018	454,460
Current Taxation .....		122,343	174,993	126,782	176,243
Corporation Tax due 1.1.74 .....		76,000	127,000	78,442	131,444
Proposed Dividends of Alginat Industries Limited .....		48,741	63,775	48,741	63,775
Bank Overdraft .....	5	926,120	824,631	927,609	824,631
		<b>1,648,195</b>	<b>1,609,052</b>	<b>1,702,592</b>	<b>1,650,553</b>
<b>Net Current Assets</b> .....		<b>714,927</b>	<b>550,434</b>	<b>757,688</b>	<b>623,712</b>
		<b>£2,234,099</b>	<b>£1,789,431</b>	<b>£2,309,449</b>	<b>£1,856,663</b>
<b>Financed by:</b>					
Issued Share Capital of Alginat Industries Limited .....	6	127,551	127,551	127,551	127,551
Capital Reserves .....	7	224,783	224,783	224,789	224,789
Retained Profits .....	8	1,635,765	1,309,097	1,691,909	1,358,223
Taxation deferred by Capital Allowances .....	9	246,000	128,000	265,200	146,100
		<b>£2,234,099</b>	<b>£1,789,431</b>	<b>£2,309,449</b>	<b>£1,856,663</b>

WILLIAM R. MERTON

R. R. MERTON

} *Directors.*

# ● ALGINATE INDUSTRIES LIMITED AND SUBSIDIARIES

## CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31st December 1972

	Notes	Group 1972 £	Group 1971 £
Turnover.....		4,641,340	3,747,799
Group Trading Profit .....		<u>900,677</u>	<u>762,531</u>
Provision for Depreciation, after appropriation of £37,036 from Investment and other Grants (1971—£34,774).....		155,302	125,756
Directors' Emoluments .....	10	93,689	82,234
Staff Bonus Scheme (other than Directors) .....		33,769	53,174
Auditors' Remuneration .....		1,750	1,455
Interest on Bank Overdraft .....		66,088	58,898
		<u>350,598</u>	<u>321,517</u>
Group Profit before Taxation .....		<u>550,079</u>	<u>441,014</u>
Taxation .....	9	<u>167,652</u>	<u>162,784</u>
Group Profit after Taxation .....		382,427	278,230
Retained by Subsidiaries .....		7,018	10,147
Profit after Taxation of Alginat Industries Limited available for appropriation .....		<u>375,409</u>	<u>268,083</u>
Dividends of Alginat Industries Limited .....	11	48,741	63,775
Retained in Reserves by Alginat Industries Limited .....		<u>326,668</u>	<u>204,308</u>



# ALGINATE INDUSTRIES LIMITED AND SUBSIDIARIES

NOTES ON THE ACCOUNTS—31st December, 1972

## 1. Fixed Assets

	1972			1971	
	Land Buildings and Roads				
	Freehold	Leases less than 50 yrs to run	Plant, Machinery etc.	Total	Total
	£	£	£	£	£
<b>(a) ALGINATE INDUSTRIES LIMITED:</b>					
Cost at beginning of year	411,122	172,190	1,640,476	2,223,788	1,981,007
Additions during the year at cost	149,384	34,707	348,872	532,963	254,216
	560,506	206,897	1,989,348	2,756,751	2,235,223
Disposals during the year at cost	—	—	23,204	23,204	11,435
Cost at end of year	560,506	206,897	1,966,144	2,733,547	2,223,788
Deduct total Investment and other Grants received and receivable	108,544	21,016	404,715	534,275	461,462
Net Cost at end of year	451,962	185,881	1,561,429	2,199,272	1,762,326
Deduct Depreciation:					
at beginning of year	85,244	43,066	707,095	835,405	704,331
provided this year	23,526	7,915	137,603	169,044	138,001
adjustments re disposals	—	—	—16,765	—16,765	—6,927
Aggregate Depreciation	108,770	50,981	827,933	987,684	835,405
Deduct Investment and other Grants appropriated to Profit and Loss Account					
at beginning of year	11,960	3,146	116,594	131,700	99,509
for the year	4,829	894	28,812	34,535	32,191
	91,981	46,941	682,527	821,449	703,705
Net Book Values at end of year	359,981	138,940	878,902	1,377,823	1,058,621
Investment and other Grants carried forward to future years	91,755	16,976	259,309	368,040	329,762
<b>(b) THE GROUP:</b>					
Cost at beginning of year	482,954	182,697	1,866,146	2,531,797	2,270,322
Additions during the year at cost	151,876	36,761	369,118	557,755	277,425
	634,830	219,458	2,235,264	3,089,552	2,547,747
Disposals during the year at cost	—	—	27,827	27,827	15,950
Cost at end of year	634,830	219,458	2,207,437	3,061,725	2,531,797
Deduct total Investment and other Grants received and receivable	115,692	21,016	433,399	570,107	496,373
Net Cost at end of year	519,138	198,442	1,774,038	2,491,618	2,035,424
Deduct Depreciation:					
at beginning of year	103,657	46,608	807,246	957,511	806,196
provided this year	25,446	8,630	158,262	192,338	160,530
adjustments re disposals	—	—	—18,713	—18,713	—9,215
Aggregate Depreciation	129,103	55,238	946,795	1,131,136	957,511
Deduct Investment and other Grants appropriated to Profit and Loss Account					
at beginning of year	13,373	3,146	123,824	140,343	105,569
for the year	5,116	894	31,026	37,036	34,774
	110,614	51,198	791,945	953,757	817,168
Net Book Values at end of year	408,524	147,244	982,093	1,537,861	1,218,256
Investment and other Grants carried forward to future years	97,203	16,976	278,549	392,728	356,030

## NOTES ON THE ACCOUNTS—(Continued)

		1972	1971
		£	£
2. Subsidiary Companies			
Shares at Cost	25,696	25,696	
Shares at Directors' Valuation	35,000	35,000	
Amounts due on Current Account	67,453	105,685	
	128,149	166,381	
Less amount owing on Current Account	700	700	
	127,449	165,681	
3. Interest in Associated Company			
Shares at Cost	10,998	10,998	
Amount due on loan	2,902	3,697	
	13,900	14,695	
The following information is given in respect of the investment in the associated company.			
Income (before Taxation) included in AIL accounts for 1972			
AIL share of profits per latest accounts received:			
Before Taxation	2,290	2,212	
After Taxation	2,278	2,176	
AIL share of aggregate undistributed profits since acquisition	18,190	15,912	
4. Stocks and Stores			
In general, stocks have been valued at cost or net realisable value whichever is lower. In determining cost all selling expenses have been excluded.			
5. Bank Overdrafts			
Secured	713,050	676,331	
Unsecured	213,070	148,300	
	£926,120	£824,631	
6. Share Capital of Alginate Industries Limited			
As at 31st December, 1972 the Share Capital of Alginate Industries was:			
	Authorised	Issued	
	£	£	
50 per cent Non-Cumulative Preferred			
Ordinary Shares of £1 each fully paid	100,000	87,227	
Deferred Shares of 50p each fully paid	50,000	40,324	
	£150,000	£127,551	
On the 15th of February, 1973 the Capital of the Company was reorganised as follows:			
(i) The Authorised Capital of the Company was increased to £1,700,000.			
(ii) £566,976 being a part of the amount standing to the credit of the undistributed profits was capitalised and applied in paying up in full at par the 566,976 unissued Preferred Ordinary Shares of £1 each. Such shares were then allotted and credited as fully paid among existing members at the rate of thirteen shares for each two shares held. The Shares were then re-designated as 7½% Cumulative Preference Shares of £1.			
£702,669 being a part of the amount standing to the credit of the Undistributed Profits plus £20,713 standing to the credit of General Capital Reserve plus £204,070 standing to the credit of the Share Premium Account was capitalised and applied in paying up in full at par 1,854,904 Deferred Shares of 50p each. Such shares were then allotted as fully paid among existing members at the rate of twenty-three new shares for each share held. The shares were then sub-divided into two shares of 25p each and were re-designated Ordinary Shares After the reorganisation of Capital and after bringing into account the undistributed Profits for the year ended 31st December 1972. Shareholders Funds appear as:—			
Share Capital	Authorised	Issued	
	£	£	
7½% Cumulative Preference Shares of £1 each fully paid	654,203	654,203	
Ordinary Shares of 25p each fully paid	1,045,797	967,776	
	1,700,000	1,621,979	
Retained Profits		422,270	
Taxation deferred by Capital Allowances		265,200	
		£2,309,449	



# NOTES ON THE ACCOUNTS—(Continued)

## 7. Capital Reserves

	Alginat Industries Limited		The Group	
	1972	1971	1972	1971
	£	£	£	£
Share Premium Account	204,070	204,070	204,070	204,070
General Reserve:				
Balance at 31st December, 1971	20,713	20,713	20,719	20,719
Balance at 31st December, 1972	224,783	224,783	224,789	224,789

## 8. Retained Profits

	Alginat Industries Limited		The Group	
	1972	1971	1972	1971
	£	£	£	£
As at 31st December, 1971	1,309,097	1,104,789	1,358,223	1,143,768
Undistributed Profits for the year	326,668	204,308	333,686	214,455
Undistributed Profits carried forward at 31st December, 1972	1,635,765	1,309,097	1,691,909	1,358,223

## 9. (a) Taxation

	Alginat Industries Limited		The Group	
	1972	1971	1972	1971
	£	£	£	£
Adjustment in respect of previous years	— 29,900	— 15,527	— 29,890	— 14,802
Corporation Tax on the profits of the year	76,000	127,000	78,442	131,486
Transfer to Reserve for Taxation deferred by Capital Allowances	118,000	43,000	119,100	46,100
	164,100	154,473	167,652	162,784

## (b) Reserve for Taxation deferred by Capital Allowances

	Alginat Industries Limited		The Group	
	1972	1971	1972	1971
	£	£	£	£
Balance at 31st December, 1971	128,000	85,000	146,100	100,000
Provided in the year	118,000	43,000	119,100	46,100
Balance at 31st December, 1972	246,000	128,000	265,200	146,100

Tax equalisation accounts are based on taxation at current rates on the excess of the net book values of assets over the written down values for tax purposes.

## 10. Emoluments of Directors

The total emoluments of the Directors of the Company for the year as shown in the Consolidated Profit and Loss Account amount to £93,689. This sum includes contributions to the Company's incentive bonus pension scheme, which at the present time cannot be individually determined. The relevant information will be given in next year's accounts, while the figures for 1971 were:—

Emoluments of the Chairman	£2,436
Emoluments of the highest paid Director	£15,311

The number of Directors of the Company whose emoluments during 1971 were within the bands stated:—

Number	Emoluments
2	up to £2,500
3	£5,001 to £7,500
2	£7,501 to £10,000
1	£15,001 to £17,500

## NOTES ON THE ACCOUNTS—(Continued)

### 11. Proposed Dividends of Alginate Industries Limited

	1972 £	1971 £
7½% Cumulative Preference Shares of £1 each fully paid—equivalent to £49,065 gross	34,345	43,613
Ordinary Shares of 25p each fully paid—equivalent to £20,565 gross	14,396	20,162
	<u>48,741</u>	<u>63,775</u>

### 12. Contingent Liability

There is a contingent liability in respect of Bills of Exchange sold to, and promissory notes given to, the Company's bankers.

### 13. Commitments for Capital Expenditure

Contracts in respect of future capital expenditure on fixed assets which had been placed at the dates of the respective balance sheets were approximately £88,600 for the Group (1971—£44,800) and £72,200 for the Company (1971—£38,300). Expenditure sanctioned but not contracted for amounted to £1,144,000 for the Group (1971—£495,000) and £1,115,000 for the Company (1971—£485,000).

## SUBSIDIARY AND ASSOCIATED COMPANIES 31st DECEMBER, 1972

Company and Country of Registration or Incorporation		Holding of share capital		Principal Activities
		Class of Capital	Percentage held by AIL	
England				
Alginate Industries (Scotland )Ltd.		Ordinary	100	The manufacture of seaweed meal Advisory Advisory Advisory
Alginate Industries (Manufacturing) Ltd.		Ordinary	100	
Alginate Industries (Sales) Ltd.		Ordinary	100	
Manucol Products Limited		Ordinary	100	
Republic of Ireland				
Arramara Teoranta		Ordinary	22	The manufacture of seaweed meal Non-operative
Alginate Industries (Ireland) Ltd.		Ordinary	100	
United States of America				
Manucol Products Incorporated		Shares of no par value	None Issued	Non-operative



# REPORT OF THE AUDITORS

to the Members of Alginat Industries Limited

We have examined the annexed balance sheets, profit and loss account and notes on pages eight to thirteen, and report that in our opinion they together give, so far as concerns members of the holding company, a true and fair view of the state of affairs at the 31st December 1972, and of the profit for the year ended on that date and comply with the Companies Acts 1948 and 1967. The consolidated accounts incorporate figures in respect of certain subsidiary companies which have not been audited by us.

SMALLFIELD, FITZHUGH, TILLET & CO.,

*Chartered Accountants.*

24, Portland Place,

London, W1N 4AU

*16th April, 1973*

# **GROUP FINANCIAL RECORD**

	<b>Fixed Assets</b>	<b>Profit Before Taxation</b>	<b>Profit After Taxation</b>
	At Net Book Value		
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
1963	342	171	90
1964	448	221	116
1965	580	217	146
1966	589	221	129
1967	649	287	158
1968	726	415	233
1969	977	369	187
1970	1,109	400	216
1971	1,218	441	278
1972	1,538	550	382



RRM

JPC

18th June, 1973.

Col. W. H. L. Gordon, C.B.E., M.C.,  
Advisor on Private Investment,  
Foreign & Commonwealth Office,  
Overseas Development Administration,  
Eland House,  
Stag Place,  
London, SW1E 5DH.

Dear Col. Gordon,

I felt that our discussion last Wednesday was most helpful and I shall be following the various lines as you suggested.

In the meantime I enclose a copy of our Application for a Pre-Investment Study and should be grateful if you could arrange for it to be passed through the appropriate channels as soon as can be arranged.

With many thanks for your assistance.

Yours sincerely,

M.H.C. Pery.

APPLICATION FOR PRE-INVESTMENT STUDIES SCHEME.

1. DETAILS OF FIRM.

(i) Company Address.

Alginat Industries Ltd., 22 Henrietta Street, London,  
W.C.2.

(ii) Nature of Business.

The Manufacture and Sale of Alginates. The Company has five Seaweed Collecting and Drying Factories situated in the Outer Hebrides and on the Western Coast of the Irish Republic which supply dried milled Seaweed to two Chemical Factories on the Mainland of Scotland (in Argyllshire and Ayrshire). Various Salts of Alginic Acid are extracted from the Seaweed and the Alginate compounds manufactured have a wide variety of uses in Textile Printing, Food, Pharmaceutical and many other Industries throughout the World. Some 80% of the total production is Exported and the Company has recently been awarded its Second Queen's Award for Export achievements.

As the Seaweed economically available around the shores of Britain is insufficient for the Company's expanding requirements, Seaweed Meal is imported from Norway, South Africa, South America and the Company is currently Assisting the Icelandic Government in a joint venture for developing the Seaweed resources of Iceland.

The Company has had a steady record of doubling its production every six years over the last twenty five years and it is estimated that Seaweed supplies economically available in the Northern Hemisphere are not sufficient for the Company's projected plans for expansion beyond 1976.



PROJECT TO BE STUDIED.(i) The Nature and Location of the Project.

The establishment at Port Stanley, Falkland Islands, of a Factory designed initially to produce around 2,500 tons per year of Calcium Alginate extracted from approx. 100,000 tons of wet *Macrocystis Pyrifera* Seaweed collected (by means of specially constructed Harvesting Craft) under Licence granted by the Government of the Falkland Islands.

A copy of the Agreement and Licence is enclosed.

The Calcium Alginate, which is not an end product in itself, will be shipped primarily to Scotland for further processing, purification and conversion into the many forms of marketable Alginates, whence the greater part will be Exported throughout the World.

(ii) Approximate Expected Capitalisation of Project.

The Capital cost of the project including purchase of the specialised Harvesting Craft, is likely to be in the region of 4.5 million pounds. In addition to this, at least a further 1.0 million pounds will have to be found to increase the working Capital to take into account the time delay between shipping Calcium Alginate from the Falkland Islands and the eventual sale of finished Alginates to the Customer.

(iii) Expected Capital Investments.

A Forecast and Cash Flow for the next ten years has been prepared which indicates that the Company cannot finance an undertaking of this size by its normal means - i.e. Plough back of Profit and Bank Overdraft. Discussions will be held shortly with CDC and other possible financial Partners to assess the most suitable means of obtaining the balance of finance required.

(iv) Participation of Local or Foreign Interests.

This possibility has not been ruled out but is unlikely in view of the fact that the product to be manufactured in Stanley (Calcium Alginate) is not a marketable commodity on a large scale basis and thus the Company would be the sole effective Market for the product manufactured by its Subsidiary in Stanley.



HOST COUNTRY CONSIDERATIONS.(i) Integration with Development Plans of Host Country.

This matter was discussed at some length with the Governor, Colonial Secretary and Members of EXCO with a Director of the Company during visits in 1969 and early 1973. It was widely accepted that the formation of a "second industry" would be thoroughly beneficial - particularly in view of the fluctuating and declining wool prices which had made the economy of the Islands somewhat precarious.

The Company has been in regular contact with the Governor concerning the way in which the plan has been developed and during 1972 the Company was granted by the Falkland Islands Government an exclusive Licence for harvesting Kelp on the South Eastern shores of East Falkland for a period of 50 years. In addition, the Falkland Islands Government has been kept fully aware of the Company's plans for the development of the "Camber Site" and has been represented at the various Meetings with the Ministry of Defence concerning the Lease of the Site and the Oil Storage facilities.

(ii) Possible Conflict with Host Government.

A copy of the Company's Agreement with the Falkland Islands Government for the Licence to harvest Kelp is attached. There is no question of any conflict of interests and the Falkland Islands Government has been most helpful in making arrangements for the Pilot Plant and generally providing assistance for the project. In the long term revenue from Kelp Royalties and Profits Taxation should become a very major factor in the Falkland Islands Budget.



Background.

- (a) As early as 1947 a Survey was carried out in conjunction with the P-E Consulting Group Ltd., the main object of which was to determine the amount and availability of supplies of Seaweed around the Falkland Islands and to assess the most suitable Site for a Seaweed Processing Factory. The result of this Survey showed that sufficient Seaweed was available to provide raw material for a large scale Alginate Industry. The timing was somewhat premature as, for the size of the Business as it was then, there was sufficient Seaweed around the Shores of the British Isles to allow for considerable expansion.
- (b) In September 1967 arrangements were made with the Government of the Falkland Islands to start procuring and despatching to Scotland monthly samples of *Macrocystis* Seaweed for analyses. This arrangement continued until in 1968 the Company appointed their own part-time Representatives in the Falklands.
- (c) In April 1969, Mr. M.H.C. Pery, a Director of the Company, visited the Falkland Islands with the object of re-investigating the establishment of a Seaweed Processing Factory and negotiating the Seaweed Harvesting Concessions with the Falkland Islands Government. (The Harvesting Licence and Concession was finally agreed in 1972).
- (d) In the Autumn of 1970 a Pilot Plant was established to produce dried milled Seaweed at Port Stanley and three resident staff engaged. Valuable experience was gained as a result of which it was concluded that it was essential from an economic point of view to divide the process enabling the first stage of Alginate Manufacture (that of producing Crude Calcium Alginate) to be carried out in the Falklands instead of merely producing dried milled seaweed as raw material.
- (e) A pre-requisite of being able to manufacture Calcium Alginate locally is the availability of sufficient water and studies were put in hand to investigate the construction of a barrage at the mouth of the Murrel River.
- Measurements were made on the spot and, on the basis of the information provided, a rough estimate was prepared by Consulting Engineers specialising in this subject.
- (f) Various Meetings have been held with the Ministry of Defence concerning the Lease of the "Camber Site" together with the accompanying Oil Storage Tanks. This Site is on the opposite side of Stanley Harbour to Port Stanley and is ideally suited as a Factory Site. This plan has the full agreement of the Falkland Islands Government.
- (g) Early in 1973 Mr. Pery accompanied by the Company's Chief Chemist, Mr. Drew, again visited Port Stanley with objectives as follows:-
- i. To confirm, in company with experts from California, the quantities of *Macrocystis* as described in the 1947 Survey.
  - ii. To engage additional Staff and arrange for the installation of a new Pilot Plant for manufacturing Calcium Alginate.
  - iii. To explain to the Falkland Islands Government the consequences of the Company's decision to manufacture Calcium Alginate as opposed to Exporting Dried Milled Seaweed.
- (h) During Mr. Pery's visits, in addition to Official discussions with Members of the Falkland Islands Government and Secretariate, Public Meetings were held in the Town Hall to ensure that the people of Stanley were fully aware of the Company's plans and intentions and to give people the opportunity to raise any questions that might be a cause for concern.



#### 4. (Contd.)

##### (i) Scope of Studies.

It is intended that Messrs. Humphreys & Glasgow should undertake a detailed feasibility study to confirm or modify as required the initial findings and estimates as reported by the Company's Engineering Dept. Details of the proposals for the feasibility Study as suggested by Messrs. Humphreys & Glasgow are attached. It will be seen that they propose to make an initial study of the Company's process, to prepare a preliminary equipment list, plant layout and schedule of quantities for the projected Factory at Port Stanley, to examine the conditions on site and to prepare a report with a Budget price and programme.

##### (ii) Cost of Study.

The cost of the Study is detailed in Section 2 of the attached proposal and it will be seen that the total cost is estimated to be in the region of £35,000. to which should be added a sum of say £5,000. to cover the expense of our own Engineer in travelling to the Falkland Islands and working in conjunction with Humphreys & Glasgow.

##### (iii) Date of Commencement.

It is intended that the Study should be started at the beginning of August 1973 and it will take approximately six months to complete and prepare the final Report.



5. AGENCY OF STUDY

The Study will be undertaken by Messrs. Humphreys & Glasgow Ltd.,  
22 Carlisle Place, London, S.W.1. and one of the Company's  
Engineers will be seconded to work with Messrs. Humphreys & Glasgow.

GENERAL.

It is anticipated that the Revenue accruing to the Falkland Islands Government from establishing an Alginate Industry at Port Stanley should amount to approx. £100,000 per year in 1980 rising to over £250,000 per year in 1988. This is based on the best possible forecast for the growth in World demand for Alginates and the fact that the Company will supply the major part of this increased demand. This seems a reasonable assumption as the Company is now the largest Producer of Alginates in the World (accounting for approx. one third of the total supply) and, the Falkland Islands are one of the very few Areas in the World with sufficient Seaweed to sustain this scale of expansion. Competitive Alginate Producers are already in a position where expansion is curtailed by the lack of Seaweed available locally at an economic price.



SUPPORTING DOCUMENTS

1. The Company's Accounts for 1972.
2. Copy of the Application which won the Queen's Award for Export in 1973.
3. Copy of the CIBA Review.
4. Copy of Proposals for Survey by Messrs. Humphreys & Glasgow.  
(to follow under separate cover)
5. Copy of Agreement with Falkland Islands Government.

# ALGINATE INDUSTRIES

L I M I T E D

## DIRECTORS:

W. R. MERTON, Chairman.

R. R. MERTON,

R. CAMPBELL-PRESTON

O.B.E., M.C.

Managing  
Directors

A. C. W. NORMAN, O.B.E.

R. H. McDOWELL,

D. L. BANKES,

F. L. G. GRIFFITH-JONES,

M. H. C. PERY,

R. F. d'ERLANGER.

22, HENRIETTA STREET, LONDON, WC2E 8NB



## TELEPHONE:

01-836 0451/4.

01-836 0142/3.

## TELEGRAMS:

"ALGINATES."

LONDON.WC2"

## CABLES:

"ALGINATES. LONDON.WC2"

TELEX: 23815.

AHS/BC

22nd June 1973.

E.G. Lewis Esq., C.M.G., O.B.E.,  
65, Eaton Square,  
London, S.W.1.

Dear Mr. Lewis,

As agreed this morning, I send Messrs. Humphreys & Glasgow's feasibility and cost Proposal for the Port Stanley project.

When you have read this, would you very kindly return it to us in the enclosed envelope.

I also send 2 copies of our Application for a Pre-Investment Study, as sent to Colonel Gordon under Mr. Pery's letter of June 18th 1973.

Having considered this, will you please indicate your approval upon it, and forward it to Col. Gordon. The other copy is for your retention.

Yours sincerely,

A. H. STEWART





Foreign and Commonwealth Office  
London SW1

Telephone 01- 930 8440

Miss M G D Evans  
British Embassy  
BUENOS AIRES

Your reference

Our reference

Date 2 October 1973

*Dear Glyne.*

ALGINATE INDUSTRIES LTD

1. I refer to Tom Layng's letter COM/29/2C of 11 September to you and your letter 4/2 of 7 September, to which he refers; the following comments may help.
2. We have always felt, with Sir Michael Hadow, that if non-UK labour is to be used on the construction of the permanent airfield it would give needless offence if any but Argentines are employed. The tender documents provide that non-UK labour must come from the Argentine, but I imagine that there would be no objection to recruitment of some itinerant Chileans resident in The Argentine so long as the Argentine authorities are made aware of this. Presumably recruitment will be carried out through some Argentine agency.
3. As Tom points out, there are already a number of Argentines in the Falklands and the YPF project will bring an increase. I think we will all have to keep an eye on the Trojan horse aspect of this. In the meantime an influx of Argentine operatives would, as you point out, give rise to all sorts of problems.
4. Alginates London office have no knowledge of the recruitment of Argentines for permanent positions on their project. They confirm my impression that managers and foremen will be either from the UK or from the Islands. This does not answer all your worries, but I will keep an eye on the position at this end.
5. The London Office do not know how far Mickey Pery has got with YPF and the Navy, but I have told Stewart of the YPF Agreement state of

/play

CONFIDENTIAL



play and said that I thought their gas-oil could ~~not~~ come from YPF like everybody else's on the Islands.

6. I will write again if and when the Humphrey and Glasgow people contact me.

*Gross even  
D.G.F.*

Copy: T H Layng Esq  
Acting Governor  
FALKLAND ISLANDS

D G F Hall  
West Indian & Atlantic Dept

CONFIDENTIAL



580  
589

EXTRACT FROM THE MINUTES OF EXECUTIVE COUNCIL MEETING

NO. 9/73 HELD ON WEDNESDAY 24TH OCTOBER, 1973.

JOM/29/20 8. ALGINATE INDUSTRIES LIMITED (Memo 34/73)

Council was informed that it had been intimated to Government by Mr. R. R. Merton, the Managing Director of Alginato Industries Limited, that it had proved impossible to predict exactly how fast the Company's local activities would proceed, and in view of this he had asked whether the existing agreement with Alginato Industries Limited could be amended so as to maintain exclusivity notwithstanding that the prescribed amount of kelp was not processed by the date indicated on the Licence.

Council advised that a letter from His Excellency the

Governor should be sent to Alginato Industries Limited to satisfy Mr. Merton's request.

The letter to provide that the Governor will not exercise the right granted to him under Clause 4 (b) of the Licence to revoke the company's exclusivity provided that:

- i. he is satisfied at the end of two consecutive years immediately following the fifth anniversary of the date of the licence that the company is actively pursuing the operation of harvesting and processing kelp in the Colony;
- ii. the company has by the end of those two years incurred expenditure of at least \$2 million on plant and equipment in the Colony; and
- iii. the company undertakes to pay from the date of the fifth anniversary of the said Licence for each year in which its production falls short of 4,000 tons the royalty which it would have been liable to pay if its production had been 4,000 tons.



2nd November, 1973

Dear Sir,

Would you please refer to the Kelp Licence issued to you on the 20th September, 1972, and in particular to section 4 which reads:-

- "(a) subject as provided in this clause this licence shall be exclusive to AIL and the Governor undertakes that no licence shall be granted during the said term to any other person in respect of kelp in the concession area.
- "(b) The Governor reserves the right, at the expiry of six months notice in writing to AIL, to revoke the exclusivity of this Licence:-
  - (i) if AIL shall fail to achieve in the two consecutive years immediately following the fifth anniversary of the date hereof an average production per annum of 4,000 metric tons of dried milled kelp;
  - (ii) if AIL shall fail to achieve in the two consecutive years immediately following the tenth anniversary of the date hereof an average production per annum of 8,000 metric tons of dried milled kelp."

2.

Your application for amending the Licence has been considered in Council and the following undertaking is now given to your Company:-

3.

If Alginate Industries Ltd. shall fail to achieve in the two consecutive years immediately following the fifth anniversary of the date of the Licence of 20th September, 1972, an average production per annum of 4,000 metric tons of dried milled kelp the Governor of the Falkland Islands will not exercise the right granted to him by (b) of clause 4 of that Licence to revoke Alginate Industries Ltd. exclusivity provided that:-

(a)/...



- (a) the Governor is satisfied at the end of those two years that AIL is actively pursuing the operation of harvesting and processing of kelp in the Colony;
- (b) AIL has by the end of those two years incurred expenditure of at least £2 million on construction, plant and equipment in the Colony; and
- (c) AIL undertakes to pay from the date of the fifth anniversary of the said Licence for each year in which its production falls short of 4,000 tons the royalty which it would have been liable to pay if its production had been 4,000 tons.

4. I trust that this assurance now given meets with your satisfaction: would you please confirm that this is acceptable to you.

5. I am sending a copy of this letter to the Secretary of State for Foreign and Commonwealth Affairs.

Yours faithfully,



(E.G. Lewis)

Governor and Commander-in-Chief

R.R. Merton, Esq.,  
Managing Director,  
Alginat Industries Limited,  
22 Henrietta Street,  
London, WC2E 8NB.

c.c. FCO

# ALGINATE INDUSTRIES

L I M I T E D

DIRECTORS:

W. R. MERTON, Chairman  
R. R. MERTON,

R. CAMPBELL-PRESTON } Managing  
O.B.E., M.C. } Directors

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R. F. d'ERLANGER

22, HENRIETTA STREET, LONDON, WC2E 8NB



TELEPHONE

01-836 0451/4

01-836 0142/3

TELEGRAMS

"ALGINATES"

LONDON W.C.2

CABLES

"ALGINATES, LONDON, W.C.2"

TELEX: 23815

Our Ref: AD/SK (P) 10531

18th September, 1973.

The Colonial Secretary,  
Port Stanley,  
Falkland Islands,  
South Atlantic.

Dear Sirs,

We have pleasure in enclosing herewith our

cheque for £1.00

in respect of :

Annual fee

*Receipt forwarded - see 582*

Yours faithfully,

ALGINATE INDUSTRIES LIMITED



*Adair*

Accounts Department



8th November, 1973.

Thank you for your letter AD/SK (P) 10531 of 18th September, 1973.

A receipt for cheque for £1 in respect of the annual Kelp  
Licence fee is enclosed.

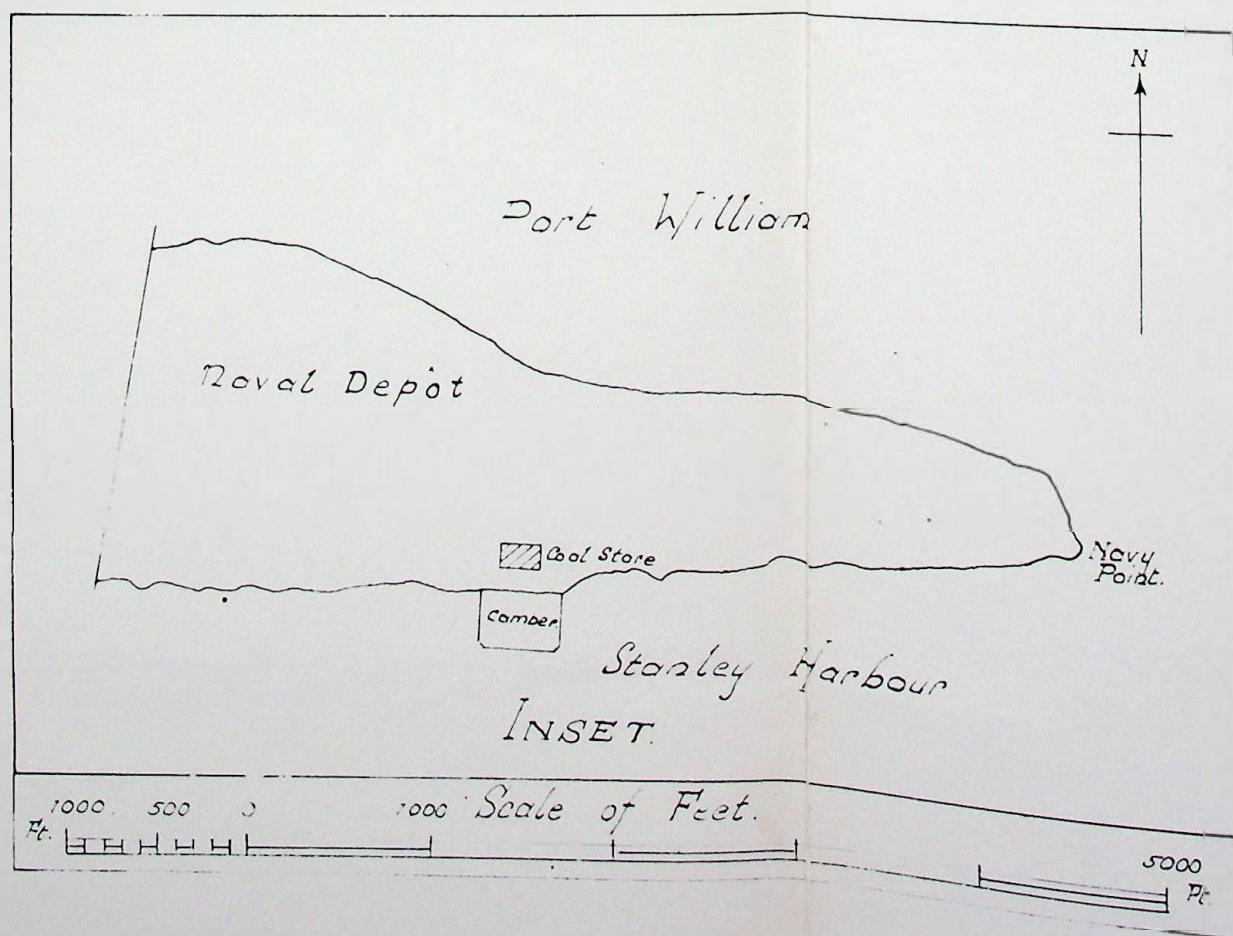
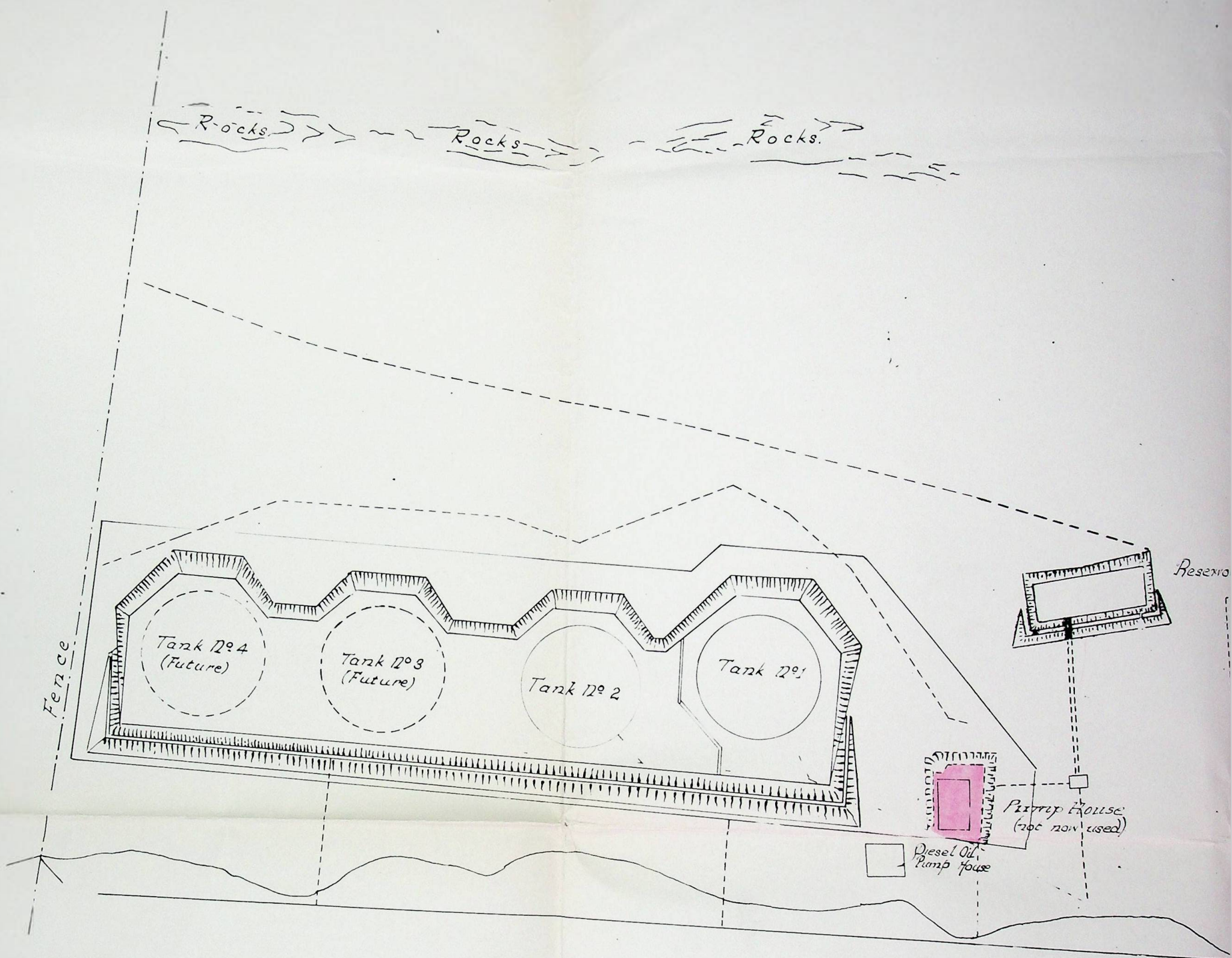
Yours faithfully,

Financial Secretary

The Accountant,  
Alginat Industries Ltd.,  
22 Henrietta Street,  
LONDON, WC2E 8NE.

LML



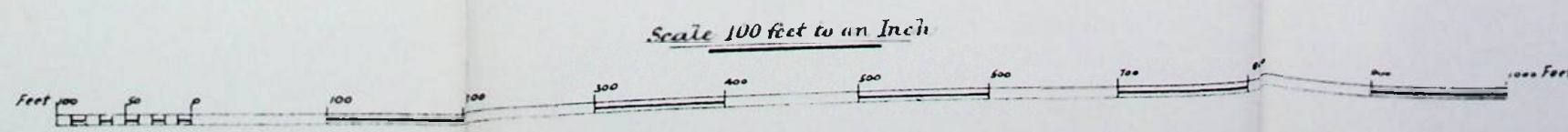
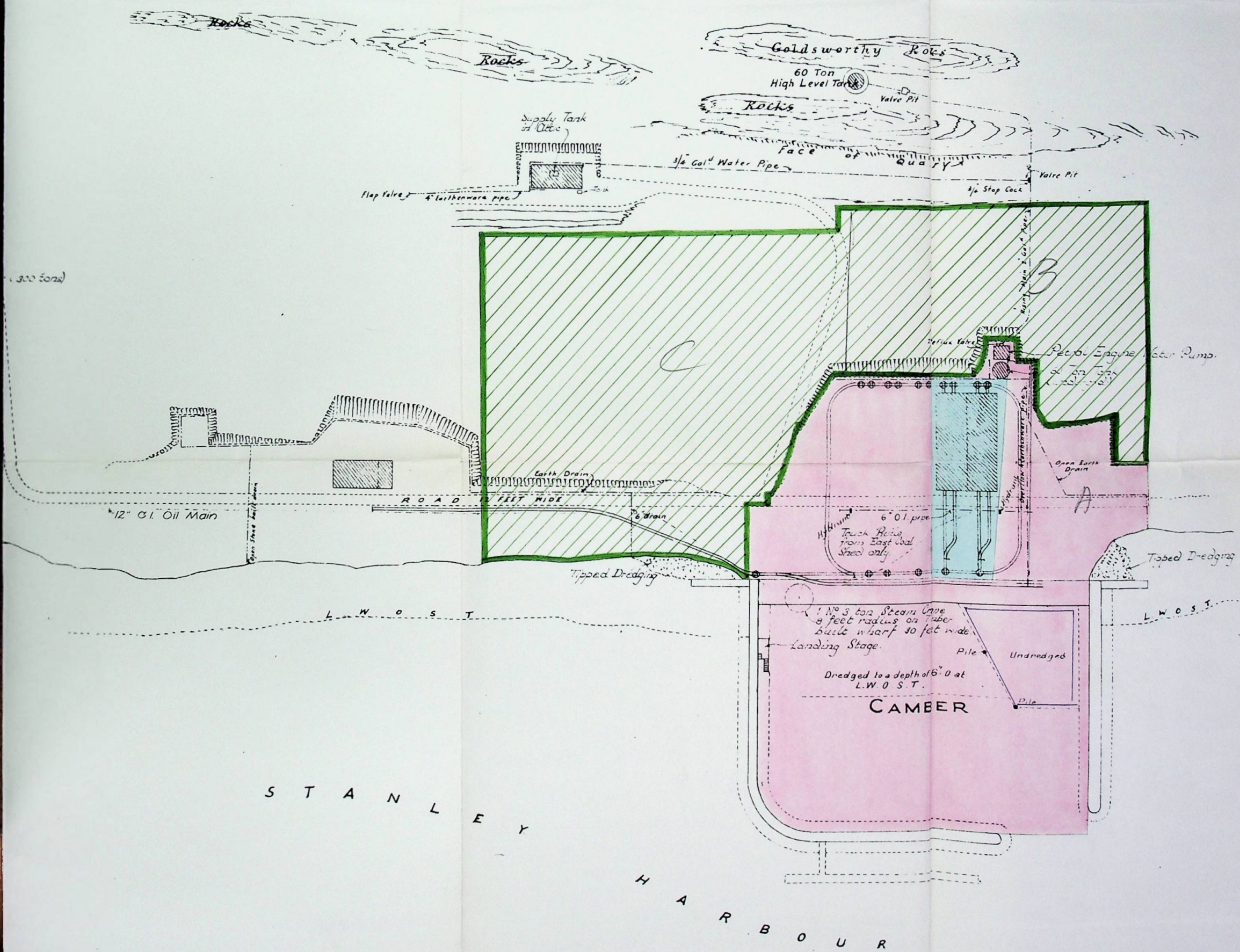




# FALKLAND ISLANDS

## NAVAL COALING DEPÔT

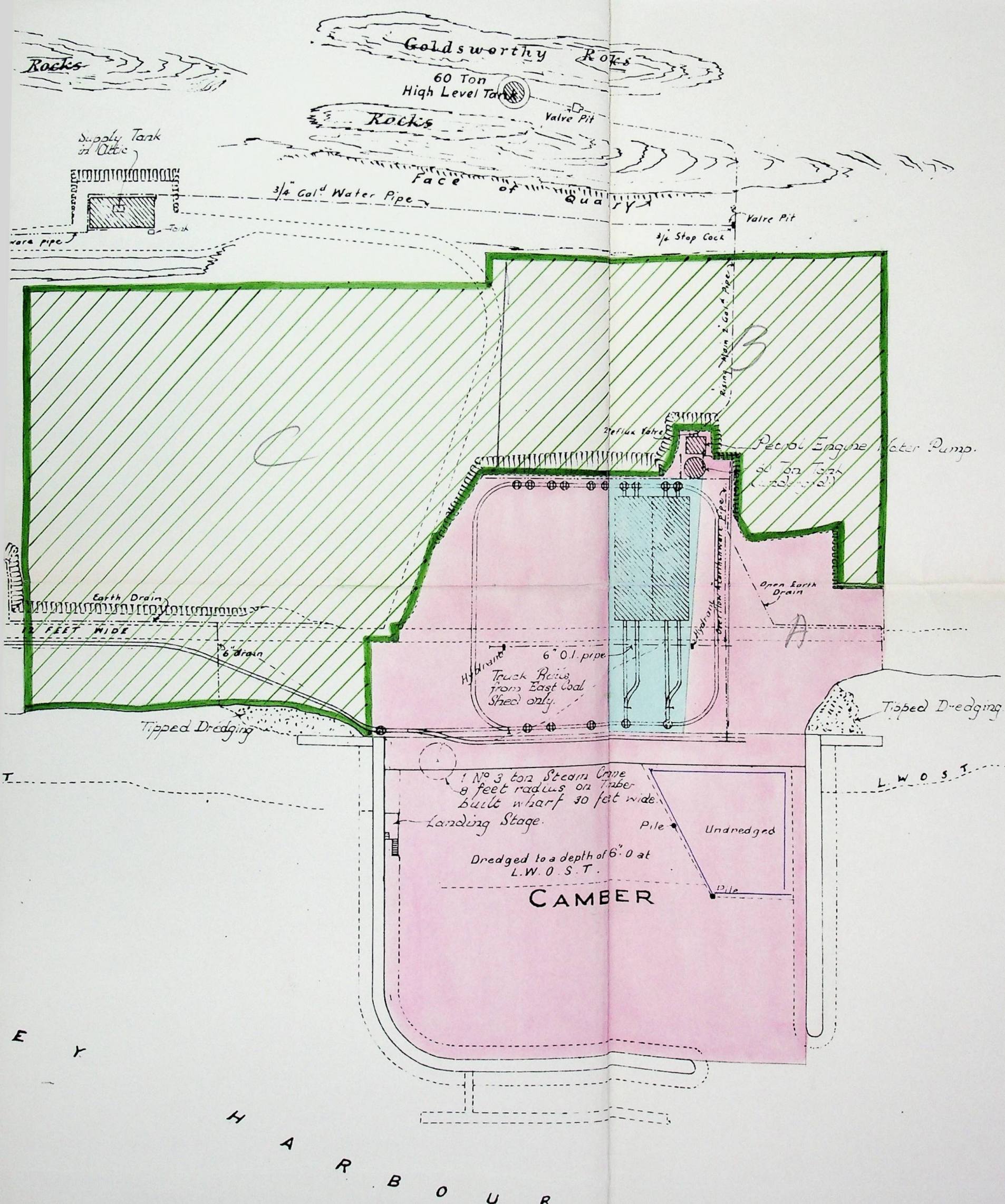
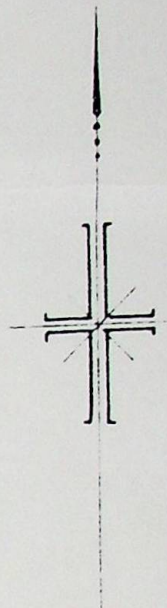
### STANLEY HARBOUR



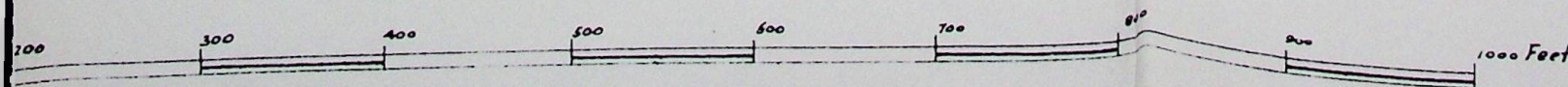
Defence Lands  
TOLWORTH TC  
Surbiton Sur  
Plan No. 37/126/72



# NAVAL COALING DEPÔT STANLEY HARBOUR



Scale 100 feet to an Inch



Defence Lands Service	
TOLWORTH TOWER	
Surrey	
Plan No. 37/726/72	Drawn <i>W.C.B.</i> Checked <i>J.W.H.</i> Date 8.2.72

10986 A.