



Government of the Falkland Islands

INTERIM REPORT

on a

FISCAL SURVEY

carried out for the Government by

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under the auspices of the

Ministry of Overseas Development

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F O R E W O R D

The writer was appointed as a Fiscal Adviser to the Government of the Falkland Islands for a period of approximately two months. The assignment was to be preceded by approximately 6 weeks preparatory work in the United Kingdom. It was also envisaged that there would be a follow-up visit some 6 months later.

The briefing period included a visit to the Amphilex international Stamp Exhibition in Amsterdam at which Falkland Islands stamps were on sale at the Crown Agents stand. It was also agreed that exploratory discussions should be held with various professional firms in N. America, while en route to the Falklands to explore any possible potential for tax haven activities.

The writer arrived in the Falkland Islands on 1 July 1977, the plane having been delayed a day by bad weather and expects to leave shortly after delivery of this report.

The terms of reference for the assignment in the Falklands were -

- i. examine the fiscal structure of the Colony, taking into account previous reports, notably those by Messrs Shackleton, Comben and Waller, Armstrong and Guillebaud, with a view to:
 - a. considering ways of increasing fiscal revenues (such as a state lottery, tax haven, philately etc);
 - b. reviewing tariffs on services provided by the government and making recommendations on appropriate tariff levels;
 - c. determining the scope for reducing the outflow of funds from the Colony, taking into account the double taxation agreement with the UK;
 - d. identifying the opportunities for attractive and productive investment (including the issue of development bonds) and the greater diversion of funds into development;
 - e. surveying the Colony's banking legislation and apparatus with a view to attracting private banking operations.
- ii. estimate the likely effects on the capital and recurrent budgets of the Colony's expansion and development programmes.
- iii. prepare and submit a written report and discuss the findings on all the above with the FIG and with FCO/ODM and draft the necessary legislation.

Two other matters the writer was asked to take a preliminary look at were the Retail Price Index, apparently in need of up-dating and consolidation and the position regarding salary revision for Civil Servants.

The writer has at all times been encouraged to have discussions with persons in the private sector, as well as officers of Government, both in London and in the Falklands, and has had as wide-ranging talks as possible in order to form a balanced view of the problems and possibilities.

The visit coincided with a period of transition, the dissolution of the old Legislative Council and preparation for elections for the new Legislative Council which would contain six elected Councillors plus the Hon. Chief Secretary and the Hon. Financial Secretary.

Several senior members of the community were away from the Falklands during the assignment and H.E. the Governor and the Hon. Financial Secretary went on leave during the assignment. Because of the impending departures and dissolution, various papers on possible fiscal and financial changes were rushed to members of Executive Council and a valuable informal discussion with Ex. Co. members was held during their visit to Port Stanley for their formal meetings. In addition a meeting with the Sheepowners' Association was held on 10 August 1977. These discussions and earlier talks with H.E. the Governor, the first on the day of arrival, 1 July 1977, were of great assistance in shaping further proposals.

The writer wishes to record his grateful thanks to H.E. the Governor Mr James Parker, the Deputy Governor Mr Gordon Slater and the Hon. Chief Secretary Mr Arthur Monk, for their help and encouragement.

Mr Harold Rowlands the Hon. Financial Secretary, and Mr Philip Summers Deputy Financial Secretary and subsequently Acting Financial Secretary were untiring in their assistance and in spite of being under the pressure of a heavy work-load most of the time were unfailingly courteous and helpful during the numerous interruptions necessary for discussion of the many points that arose in the assignment.

Thanks are also due to Honourable Members of Executive and Legislative Councils, Messrs L.G. Blake, W.E. Bowles, R.V. Goss, W.H. Goss, A.B. Hadden and Adrian Monk, to Messrs F.G. Mitchell, Managing Director, W.W. Blake, Director, H.M. Milne, General Manager and B. Hardcastle, Camp Manager, all of the Falkland Islands Company Limited. Mr R. Pitaluga of Salvador, Mr & Mrs S. Miller (Handicrafts), the various Civil Service Heads of Departments, the members of the Sheepowners' Association and a host of others in the private and public sectors who have been helpful and forthcoming in providing help and information. One must also record appreciation to Mrs Freda Alazia who was recruited on a part-time basis during August to cope with the brunt of the typing and stencilling of this Report, and to Mesdames Jess Booth, Maria Villanueva, Mary Wild and Christine O'Reilly and the Misses Una Summers, Kim Robertson and Kathleen Dobbins who lent their assistance at times of urgency.

The writer was regaled during most of his stay by a mixture of the snow, sleet, rain and icy winds of a "record" winter as well as by some fair days and a great deal of warm-hearted hospitality, notably by Mr & Mrs Jock McPhee of Green Patch who also introduced the writer and his wife to camp life, and to the rigours of winter travel overland.

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GENERAL : OUTLINE OF WORK DONE

The briefing period in London afforded by O.D.M. to the writer was mainly taken up with research and interviews with key people including officials of the F.C.O. and O.D.M., Councillors and Senior Civil Servants and Company Managers on leave from the Falklands; directors of the Falkland Islands Company and also members of the Falkland Islands Committee.

Something was achieved before actually leaving London, viz.,

- a) arrangements were made by telephone with the Honourable Financial Secretary in Port Stanley in consultation with His Excellency the Governor, and the Royal Mint in London for the immediate design and production of a Jubilee Coin, estimated to produce over £125,000 revenue, and
- b) arrangements were made by O.D.M. with the Tropical Products Institute to supply an expert to train Falkland Islanders in skin-dressing and sliping.

On arrival in Port Stanley on 1 July 1977 there were immediate discussions with H.E. the Governor, the Honourable Chief Secretary and the Honourable Financial Secretary at which it was mentioned that the most urgent points included the unchecked outflow of funds from the country, the setting up of a bank, development - including social development, roads, salaries revision - including price index review.

A minor matter that had been under discussion for some years was the application of P.A.Y.E. to employees and a paper on this subject was prepared urgently for consideration at Executive Council's July meeting. The matter was referred back by Executive Council for consultation with employers and unions. As a result of these discussions, which indicated a clear preference for a voluntary system, informal papers were prepared for the August Executive Council meeting giving further details as to how the system would work so that authority could be obtained for an early start to be made.

Informal papers were also prepared with great urgency for consideration by Executive Council also at the July meeting outlining the various ways in which the outflow of funds, i.e. distribution and remittance of profits overseas, from the Falklands could be diminished. Follow up action was taken on one of these, i.e., the issue of development (housing) bonds, which was thought preferable to any element of compulsory retention.

Lengthy discussions were held with Legislative and Executive Councillors at an informal meeting, and subsequently (at their request) with the Sheepowners' Association.

Only one brief visit was possible to "camp" (the nearby settlement of Green Patch) because of pressure on the air service and shortage of ground transport. At the time of writing it is hoped to snatch another brief visit to camp (Goose Green/Darwin) a day or two before leaving on 8 September.

Papers have been prepared on a number of subjects, some as "action" papers (P.A.Y.E., R.P.I. Bond Issues, Numismatics, Philately) others for consideration as to future action, in some cases there being a choice among several different possible courses. Some papers were prepared for Executive Council (Trade Marks, Stamp Duty) but did not reach Executive Council because of already over-full Agenda.

It was envisaged that the writer would return after a few months as a follow-up exercise, which could involve advising further on details and ramifications of some of the proposals made, particularly of course those selected by the Administration as the more suitable for actual adoption.

As regards projects likely to be well under way before the writer's return, such as the first phase of P.A.Y.E., the data gathering for the new R.P.I. and the raising of development finance there may be subsequent phases of these coming up for consideration on the next visit.

NOTES ON EXISTING FISCAL STRUCTURE IN THE
FALKLAND ISLANDS

There are some unique features in the Falkland's fiscal structure, the first of which is that tax revenue comes mainly from two sources: customs duties (on alcohol and tobacco only) and income tax with a small contribution from estate duty.

The rest of Government Revenue comes from what might be termed trading activities which includes the profits on the Savings Bank, the profits from philately and numismatics.

For an explanation of what seems to be an excessive reliance on income tax, as a source of revenue, (it produces between $\frac{2}{3}$ and $\frac{3}{4}$ of the tax revenue), one has to look at the budget speeches of previous Financial and Colonial Secretaries and also at the reports of experts who have visited the country, many of these, from Guillebaud to the Lord Shackleton mission have recommended increases in income tax and all such proposals have been accepted. Income tax, is, of course, one of the most equitable taxes but it is not necessarily the best levy in a country striving to get new developments started.

In the Budget speech of February 1962, the then Honourable Financial Secretary mentioned that the wool industry was divided into three groups, one of which was the companies controlled in Britain. He also mentioned that "it is the tax paid to the British Treasury by the first of these groups that we are after, and this group is also anxious that their entire taxation should accrue to the Falkland Islands Treasury."

In fact this ideal never seems to have been achieved so that each year some of the tax on the activities of the overseas companies in the Falklands, has accrued to the U.K. Treasury rather than to the Falkland Islands Treasury, a fact commented on cogently in the Shackleton Report.

In the same speech in 1962 the Honourable Financial Secretary mentioned "the proposal to abolish Export Duty marks a milestone in the Colony's taxation policy, and is one which I think will be widely welcomed." The whole accent of the speech was on trying to make as much taxation as possible leviable on profits so that the maximum double taxation relief could be obtained by companies resident in Britain, who were subject to U.K. tax on the Falkland's profits. There was nothing wrong with that concept, but it does not now suffice in building a fiscal structure which will serve the country under various types of circumstance. For example if there is a collapse in the wool price and profits are low or even disappear altogether, there will be little revenue from corporate income tax, and in the absence of any other source of revenue from taxation apart from the alcohol and tobacco duties, the Government may find itself with an unbalanced budget.

The position is illustrated by this table of the main sources of revenue for the years 1975/76 to 1977/78 as per the 1977/78 Estimates.

TABLE I

	1975/76	1976/77	1977/78
Personal income tax	150,000	230,000	200,000
Company tax	400,000	100,000	400,000
Total income tax	550,000	330,000	600,000
Customs Duty	100,000	110,000	126,000

Moreover, as will be seen in the notes on estate duty and land taxation, it tends to be the case that the Overseas Companies make little contribution in taxation except the income tax upon their profits.

The aversion to export duties or tax on wool etc., can be overdone when one considers that wool is virtually the only export. Most countries exporting raw materials, whether agricultural (cocoa, coffee, cotton, edible oils, rubber, sisal tea) or minerals (oil, phosphates, tin, copper, iron ore) levy export duties or royalties as well as income tax. The entrepreneurs complain and show that the levies are regressive and so on, but no tax is perfect, regressiveness can be mitigated, and such levies are not going to disappear from the world fiscal scene.

In one sense all taxes in the Falklands are based on wool, the incomes of those not actually engaged in producing wool, are derived from rendering services of one kind or another to the wool-based economy. Income tax, customs duties, rates etc. are all paid out of incomes which are ultimately paid out of the sale of wool.

A tax on land, for example, can only be paid if the land is producing a saleable commodity such as wool, and whether the tax is expressed as a tax on land, or on sheep, or on wool is largely a matter of form rather than substance.

Ratio of direct and indirect taxes

One usually finds in developing countries there is a preponderance of indirect taxes over the direct: indirect ratio varying from 1:2 to 1:4. In developed countries, it is fairly common to find the direct: indirect tax ratio as approximately 1:1. In the Falkland Islands the direct: indirect ratio is between 2:1 and 3:1. In Britain the fiscal ratios for 1977/78 have been projected as follows (London Times 8.8.77) -

Direct:	Personal Income Tax	50%
	Corporation Tax	7
	CTT COT etc	2
Indirect:	Customs & VAT	34
	NIC etc	6

Some rough figures recently produced for the year 1974 showed that in Holland the ratios were - 34% income taxation, 23% taxes on goods and services and 37% from payroll taxation of which roughly half was paid by employers and half by employees.

In Italy, 20% of the revenue came from income taxation, 33% from indirect taxes on goods and services and 42% from payroll taxation, of which 34% amounted to levies on employers and only 8% on employees. In France, the ratios were rather similar, the payroll taxation amounted to 40% of total taxes of which 32% was upon employers and 8% on employees.

Company Taxation

The Falklands 1977/78 Budget introduced a rate of 45% on corporate profits. This is still short of the ideal pronounced in 1962 because company taxation in Britain is 52% although with higher capital allowances. Small companies are taxable at 42% although the benefit of this lower rate disappears where the profits exceeds £50,000. It seems important that a change should be made at an early stage in the Falklands to a two-tier tax rate for companies bearing in mind that a small company taxable here at 45% will not be able to obtain full double taxation relief in Britain where the company might be paying tax at only 42%, while the large company (also taxed here at 45%) will still be paying the odd 7% in U.K. tax. This is not at all what was envisaged in 1962 nor does it make much sense today.

Revenue Prospects

The great difficulty in estimating future revenue lies in the fact that a sharp fall in the price of wool, for example to the 1975 level, would virtually wipe out the company tax contribution to income tax which constitutes about $\frac{1}{3}$ of the total. The effect of this would be delayed because the tax on particular wool crops does not come in until one or two years after the event of the selling of the wool crop.

Earlier payment of tax

Some "windfall" revenue could be obtained for a particular Budgetary year if more of companies tax were collected before rather than after 30 June. This could be done by changing the law either to reduce the number of days' grace for payment after assessment, or by establishing fixed payment dates. Possibly an early date could be set for a provisional payment to be followed by one or more later dates for the final payments of the tax due for a particular year. The matter has to be approached with caution and due regard to a company's cash flow position particularly if there is a time lag in marketing the wool crop. Certainly if progress is made towards a PAYE system for employees whereby they will pay their tax a little earlier it would be unfair if similar steps for earlier payment were not eventually taken in regard to the self-employed and corporate sector.

Revenue Potential of Falkland Islands

The revenue potential of a small country may nowadays be divided into two categories, (a) "painless" where the revenue comes mainly from outsiders and (b) "local" representing the revenue one derives from taxing one's own people. Obviously one wants to do as much as possible with category (a) which would mainly comprise the following-

Painless Revenue

1. Philately
2. Numismatics
3. Notaphily
4. Banking & Foreign Exchange Dealings
5. Tourism
6. Gambling
7. Tax Haven Facilities
8. Income from Research, or Scientific Observation, or Defence Installations.

Points 1 - 5, and 7 are all dealt with under separate headings. Of the first 3 headings it may be said that revenue may be maximised not so much by engaging large numbers of staff but mainly by very long term and realistic planning, and doing what has to be done a long way ahead so that one is not involved with last minute cable and air-freight charges, and in fact in wasting a lot of valuable man hours which could have been saved by earlier planning.

This, of course, is a counsel of perfection - few countries, if any, plan far enough ahead, which is of course how the opportunity presents itself for a country that organise itself better than the others to "cash in" perfectly legitimately in a field that is open to all.

Point 6. is broadly covered by the sections on Lotteries and Tourism. The ground in the Falkland Islands is pretty well covered by local lotteries raising money to maintain various social clubs and organisations and for good causes generally. Gambling is a redistributive process, whereby the fortunate rather than the deserving win. Although in the long run luck evens out, Lord Keynes once reminded us that in the long run we are all dead. In the Falklands lotteries seem to be well organised, to serve a useful social, even recreational purpose, and there do not seem to be cases of people becoming financially ruined by buying too many tickets. Government, wisely, does not tax them, and that is the way things should remain.

Point 8. Some countries, fortuitously, obtain revenue from their geographic or strategic position - the Seymelles in the Indian Ocean houses a U.S. Satellite tracking station, and Malta in the Mediterranean has a 7 year bases agreement with NATO which produces an annual rental of £14,000,000 per annum. The Falkland Islands have benefitted and do benefit from antarctic survey and research and one can only say that any future opportunities for any type of oceanographical, space, ichthyological, or other research that could be created or seized would provide useful "painless revenue", though matters are rarely within the power of the country which hopes to benefit.

Taxation

Existing types of taxation are discussed elsewhere in the Report and a few types of taxation not at present in use are identified for possible future use. Falkland Islanders seem to be remarkably responsible in attitudes to taxation. Although there is no actual joy at the relatively high rates of income tax, and of duties on alcohol and tobacco it appears to be realised on all sides that such taxes are necessary to keep the country going.

At the moment the Budget is balanced and revenue reasonably buoyant so that if new types of tax were introduced (e.g. the Land Taxation which has been advocated in various quarters) this could be paralleled by reductions in other taxes.

It does give a Government more scope to raise more revenue when it has to with the least hardship to tax payers if it has several different types of tax to deal with, than when its only recourse is to raise the rates of one or two taxes to ever more crushing levels, such, at any rate, is the usual conception in present times.

A review of existing taxation and an outlines of alternative possibilities are contained in Section B of these notes.

HYPOTHECATION OF REVENUE

Hypothecation, or "ear-marking" of revenue means raising money for a particular purpose and for that only, as distinct from raising general revenue for many different purposes. In the Falklands examples of hypothecation are Stanley rates where the actual expenditure on a number of town services is divided rateably among the property owners in proportion to the value of their property, and old age pensions where the actual contributions by employers and employed are calculated actuarially to be the exact amounts needed to produce the designated pensions in due course.

Stanley rates do not cover road maintenance, nor is that expenditure found out of vehicle licences, but it is understood that on two occasions over the past 30 years motorists refused to pay vehicle licences (which were then suspended for some years!) because of the bad state of Stanley streets.

Hypothecation should not be overdone but it might be useful to set up separate funds, built up, say, by vehicle and driving licence revenue for Stanley streets repairs, and from, say, land taxation, for maintenance of projected and existing camp roads. For 1977/78 an Estimate of £10,000 has been provided for "roads, bridges and drains" compared with 26,000 for 1976/77 in the form of a Vote, and while one does not want to multiply book-keeping requirements, it would perhaps not be too burdensome to separate for the two "funds". the inside and outside Stanley expenditure on road maintenance to help the taxpayer appraise the problem of equating revenue and expenditure.

In both cases the funds would have to be boosted from general revenue, partly because of the large sums involved, partly because it would be difficult to allocate responsibility equitably between town and camp when residents of each use the others road and so on. Initially perhaps one could increase the hypothecated revenue by a "pound for pound" (or greater) contribution from general revenue - this is obviously not a matter for immediate decision.

Road repairs tend to depend largely on the labour available for doing them but if specific funds are set up, repairs get behind, and there is money available in the fund perhaps it is not inconceivable that the work could be put out to tender by very small entrepreneurs, where it was merely a matter of hole-filling. At any rate it would be easier for the public to understand the position if specific funds were set aside (unspent balances being carried forward) for road maintenance and were seen to be spent thereon, including vehicle licence fees, and easier to increase those fees if it seemed to be necessary.

Another instance of possible hypothecation of revenue is the suggestion of a "Medical Services Contribution" (see notes under that heading elsewhere in this Report) the revenue from which would be devoted entirely to medical services.

FISCAL SITUATION : SCOPE FOR DIVERSIFICATION

At present the Falklands' Budget is balanced with something to spare the main clouds on the horizon being -

- a) maintenance costs of airport and airport approach road, the full impact of which will not be felt for perhaps 3 or 4 years;
- b) maintenance costs of whatever new road system is installed;
- c) probably mounting losses on internal air service.

From an economist's standpoint a budget which is balanced at present could be expected to remain balanced in an economy where G.N.P. is directly attributable to the output and productivity of the labour force. This would be reasonably likely in an industrial country dependent upon its own efficiency rather than the accident, say, of mineral wealth. Unfortunately, in the Falklands the value of G.N.P. depends to the most material extent on the price of a single commodity or raw material, wool. While the prices of commodities as a whole tend to reflect inflation fairly dependably over a long period, in the short term almost anything can happen.

To some extent countries may group together, cartel-fashion, to try to stabilise export prices of the commodities they produce (e.g. OPEC for oil, and the Tin Buffer Stock Scheme for tin). This works best where substitutes are few, worst when they are many as in the case of all the natural and artificial fibres used in the world's textile industries.

Some small countries try to increase G.N.P. by processing their own raw materials, occasionally with disastrous results because they cannot compete economically with the advanced processing and manufacturing technologies of industrialised states.

Some mitigation of the wilder swings of commodity prices is sometimes sought either (a) fiscal means, or (b) by a quasi-Government body, largely staffed by the industry itself to procure a measure of price stabilisation. The fiscal way would be to impose what is sometimes called an "anti-inflationary case" or levy, which takes all or part of the excess of the export price over a fixed maximum - the funds built up being refunded according to a formula when the price falls below a fixed minimum. A similar kind of regime may be imposed by an industry upon itself (as in the case of the Tin Scheme), though it may be necessary to give the plan the backing of law, leaving it to be operated by leaders of the industry.

In the Falklands there is a long tradition of depending solely on direct taxation plus duties on alcohol and tobacco, and try to avoid taxing a single strand of the wool on a sheep's back. There is no form of taxation on land (other than Stanley rates), estate duty applies only to a small fraction of the country's wealth, and (except for old age pensions) there is no pay-roll taxation, and virtually no indirect taxation on goods and services (except tobacco and alcohol). The position is understandable, is probably unique in fiscal history, but is also probably untenable for the future.

For Budgetary years 1977/78 and 1978/79 there seems a fair prospect of substantial, largely windfall, revenue from coins and stamps, because of the success of the Jubilee issue of stamps (a large proportion of the revenue from which went into 1976/77), and because of projections of the Jubilee coin issue, and of another possible "bonanzas" with the Crown Agents' projected "Royal Wedding" omnibus stamp issue in 1978, and the projected definitive 50p and 25p coins later in 1978.

After that period it will be much harder work to generate substantial "trading" income from notaphily, numismatics and philately, but it can be done and the subject is discussed under other headings. It will similarly be more difficult to maintain trading income from banking and foreign exchange dealings with a background of rapidly falling interest rates (at the time of writing UK base rate is down to 7% after being twice as high in the last year or two) but this may be possible if various steps are taken to provide more services etc.

Taxation

When it comes down to tax revenue the present pattern is roughly -

<u>TABLE II</u>		<u>1977/78 Est.</u>
DIRECT	(Income Tax - Personal Company)	£200,000 490,000
INDIRECT	(Customs - Alcohol & Tobacco Others)	126,000 NIL
LAND AND PROPERTY TAX	(Stanley) (Camp)	25,000 NIL
PAYROLL TAXATION	(O.A.P.) (Others)	(36,000)* NIL

Income Tax

(* = contributions to a Fund, not revenue)
(N.B. employees' contributions = £24,000)

The rates of income tax have reached what are probably their maximum (subject to minor adjustments of company tax) bearing in mind that -

- (i) the provision of pensions for retirement in the Falklands is not yet as comprehensive and adequate as will no doubt eventually be the case. For the time being people have to save for their retirement and it is difficult to save enough if tax rates are too high;
- (ii) if there is to be development, entrepreneurs must plough plough back some of the profit left to them after tax;
- (iii) farm workers coming to the Falklands on short-term contracts have to save in 2 years from after-tax pay enough money for their homeward passages.

The Table overleaf compares income tax on similar incomes in the Falkland Islands and the United Kingdom.

TABLE III

Income TaxComparison of basic Personal Reliefs and Tax Payable :Falkland Islands and United Kingdom

	<u>Single</u>		<u>Married</u>		<u>Married : wife's earnings relief</u>	
	<u>F.I.</u>	<u>U.K.</u>	<u>F.I.</u>	<u>U.K.</u>	<u>F.I.</u>	<u>U.K.</u>
Personal Allowance	350	845	650	1295	200(max)	845(max)
Earned In-come Relief	+1/5th (max.£750)	-	+1/5th (max.£750)	-	(1/5th)	
Age Relief (over 65)	350	1120	650	1765		
Earned In-come Relief	+1/5th (max.£750)	-	+1/5th	-		

Comparison of Tax Payable on Gross Earnings

<u>Income</u>	<u>Single</u>		<u>Married</u>		<u>Married and wife earning extra £1000</u>	
	<u>F.I.</u>	<u>U.K.</u>	<u>F.I.</u>	<u>U.K.</u>	<u>F.I.</u>	<u>U.K.</u>
£1000	72.27	52.7	19.77	NIL	180.42	NIL
£1500	157.92	222.7	90.42	69.7	286.07	122.4
£2000	258.57	392.7	180.42	239.7	412.05	292.4
£3000	517.05	732.7	412.05	579.7	712.70	632.4
£4000	832.70	1072.7	712.70	919.7	1032.70	972.4
£5000	1250.85	1412.7	1115.85	1259.7	1475.85	1312.4
£6000	1719.00	1752.7	1569.00	1599.7	1969.00	1652.4
£7000	2131.65	2100.45	2069.00	1939.7	2469.00	1992.4

The table is significant in showing that income tax commences to be levied in Britain at a higher level of income it produces a higher yield (except for the working wife case) up to the income limit of £7,000, although effectively up to this level the maximum personal rate of tax in Britain is 34% compared with 50% in the Falklands.

This position arises because -

- a) Britain's minimum rate is also 34%.
- b) Britain has no earned income relief.

Some experts claim that moderate personal tax rates encourage enterprise and the key personnel in industries and professions and there seems to be clear evidence that the brain drain from Britain is partly attributable to high rates of personal tax, especially in the middle and upper brackets.

It is also clear that even without a shift to other forms of taxation a similar income tax yield in the Falklands could be obtained by restructuring reliefs and having a top rate probably of less than 34%.

If one wants to attract persons interested in development (or in tax haven facilities), one form of attraction is moderate personal income tax rates. People like to have higher "take-home pay" so that they have a greater say in how their money should be spent. They may then spend their money on heavily-taxed goods (so that Government then recoups revenue by increased customs duty) but they enjoy the freedom of choice!

Current Trends

In Britain's 1977/78 Budget it was originally envisaged that the "standard" rate, previously 35%, would come down to 33% or 32% depending on the type of pay limitation worked out with the unions.

Both main political parties in Britain are committed to further reductions in personal income tax, the Conservative Shadow Chancellor recently (8.8.77) mooted a scale of 30% to 60% with very much wider "bands", the first £10,000 of taxable income being charged at 30%. A labour spokesman (Brian Sedgemore M.P. Times 8.8.77) proposed, inter alia;

1. "To shift more of the burden of taxation away from individuals on to companies..."; and
2. "Within the ambit of company taxation to shift more of the burden away from small businesses on to large companies..."

- a somewhat over-simplified concept, and suggested higher personal reliefs (10% above the "poverty line") and a personal tax scale starting at 10% (instead of 34%) and rising to a maximum of 75%.

Australia which has a somewhat similar personal income tax system to that of Britain has just announced (16.8.77) changes closely resembling those suggested above by the Conservative spokesman. Personal income tax will not be payable on

incomes below £2,389, a 32% rate of tax will apply to the first £10,191 of taxable income, and a rate of 46% to the next £20,382. On taxable income above £30,573 the rate will be 60% (= the maximum). The company rate has been raised to 46%.

One does not alter tax systems merely for the sake of doing so. It is clear that recent increases in personal income tax in the Falklands are against the trend overseas, but on the other hand income tax is generally regarded as the fairest type of tax. Nevertheless many countries in recent years have tended partially to shift from income tax to other forms of tax because income tax rates were generally regarded as becoming oppressive.

Obviously the subject requires careful consideration, and as a "package" rather than item by item. Certain other types of taxation could be introduced at minimal administrative cost and these are discussed under other headings.

Estate Duty

This is a traditional source of revenue in British colonies but no longer an appropriate one for the Falkland Islands.

Most wealth and real property is owned by companies, resident either in the Falklands or Britain, and most of the shareholders reside, and die, overseas. Estate duty is not levied on the liquidation of companies but on the death of individuals so that the only wealth in the Falklands which comes into the scope of estate duty is -

- a) the estates of individuals resident and domiciled in the Falklands at the time of death;
- b) assets in the Falklands, including shares in local companies owned by individuals domiciled and dying overseas.

(a) and (b) represent a small fraction of the total wealth of the country and it is not possible to devise estate duty laws to tax, e.g., the deceased non-domiciled shareholder of Charringtons Industrial (or the Laird Group) on the fraction of the value of their shares which relates to Falkland assets, nor even to tax deceased non-domiciled shareholders of other UK companies which own property in the Falklands directly.

At present the maximum rate of estate duty is 10%, and the yield around £10,000 in a good year - the figure probably ought to be at least £40,000 or £50,000.

It has been proposed that the rates of duty be increased to a maximum of 50% but this would only exacerbate what is already an unfair and unacceptable situation.

The remedy is to abolish estate duty and substitute an annual levy which would apply to real property not already subjected to tax. Since real property in Stanley is subjected to taxation already (Stanley Rates - see also "Hypothecation of Revenue") the logic of levying some kind of tax on "camp" lands seems unanswerable. The appropriate type of levy is discussed under "Land Taxation".

There seems to be a general desire that the Falklands should have some kind of tax haven status. The recommendation to abolish (and replace) estate duty is not made for that reason, since it is clearly necessary on other grounds, but would have some minor attraction for wealthy persons (perhaps some of those devoted to wild life and conservation) to establish residence and domicile here.

TABLE IV

REVENUE FROM INDIRECT TAXATION

<u>Year</u>	<u>Beer</u>	<u>Spirits</u>	<u>Tobacco</u>	<u>Matches</u>	<u>Wine</u>	<u>Total</u>
1969/70	£3095	£36079	£9523	£72	£786	£49555
1970/71	£3571	£31555	£9384	£48	£935	£45493
1971/72	£3622	£36942	£6681	£74	£1196	£48515
1972/73	£3381	£44169	£8218	£103	£930	£56801
1973/74	£3706	£46066	£17739	£114	£1177	£68802
1974/75	£4920	£68355	£26227	£152	£1221	£100875
1975/76	£5742	£65590	£26789	-	£1910	£100031
1976/77	£12911	£66225	£26484	-	£2483	£108103

The above table, for which the writer is indebted to Mr L. Halliday, the head of the Customs Department, shows clearly how much more steady is source of income provided by Customs duties than that of income taxation.

The big leap forward between 1973/74 and 1974/75 can be attributed to two causes. One was the heavy increases in tobacco duty, the other the Johnstons Construction factor. In the period there were substantial payments of wages to the people working on the airport which would have swelled the expenditure on alcohol and tobacco.

The other point for comment is the increase between 1975/76 and 1976/77 which is comparatively modest in spite of the very substantial increase in duties in June 1976. The explanation of this is that the cargo from the June 1977 chartered vessel went straight into the new bonded warehouse opened by the Falkland Islands Company in May 1977 whereas ordinarily duty would have been paid on importation.

For 1977/78 there should be the full years benefit of the higher duties, modified, of course, by the drop in spending of the workers, previously on the Johnston Construction project, during the period until new projects are started later in the financial year.

The schedule of changes made over the past few years in the duty rates, prepared by the Customs Department, is appended for easy reference.

TABLE V

Schedule of Duty Rates

1.	1/6/69	(1)	Beer	11p per gallon
		(2)	Spirits	26.75 per gallon
		(3)	Tobacco - Cigars	£1.25 per lb.
			Cigarettes	75p per lb.
			Tobacco	60p per lb.
		(4)	Matches	25p per gross boxes
		(5)	Wines	In cask 27p per gal.
				In bottle 79½p per doz. litres
				59p per doz. qts.
				30p per doz. pts.
2.	21/5/73	(1)		11p per gallon
		(2)		£8.25 per gallon
		(3)		£2.10 per lb.
				£1.25 per lb.
				£1.00 per lb.
		(4)		25p
		(5)		Same as above.
3.	10/6/74	(1)		Same as 2 above.
		(2)		Same as 2 above.
		(3)		£3.36 per lb.
				£2.00 per lb.
				£1.60 per lb.
		(4)		Same as 1 above.
		(5)		Same as 1 above.
4.	23/6/75	(1)		Same as above.
		(2)		£9.60 per gallon.
		(3)		£3.50 per lb.
				£2.40 per lb.
				£2.00 per lb.
		(4)		abolished
		(5)		60p per gallon
				£1.80 per doz. litres
				£1.32 per doz. qts.
				66p per doz. pts.
5.	25/6/76	(1)		33p per gallon
		(2)		£12 per gallon
		(3)		£4.20 per lb.
				£2.88 per lb.
				£2.40 per lb.
		(5)	Wines	78p per gallon
			Wines Fortified	90p per gallon
6.	22/6/77	(1)		33p per gallon
		(2)		£13.50 per gallon
		(3)		£5.00 per lb.
				£3.30 per lb.
				£2.80 per lb.
		(5)		90p per gallon
				£1.10 per gallon Fortified.

LAND TAXATION

It was suggested (Appendix I, and under the heading "Estate Duty") that some form of land taxation, which would involve a contribution from otherwise "exempt" non-resident shareholders, would be an equitable substitute for estate duty.

The writer had in mind a substitute tax which would produce similar revenue to what could theoretically be produced by a fully comprehensive estate duty levied at the existing rates, i.e. £40,000 to £50,000 per annum. This sum would be produced by a levy (originally suggested) at 2p per kilo. As local statistics seem to be kept in lbs. it would seem preferable to alter this to 1p per lb. which on the figures for the year to 30 June 1976, would have produced just under £50,000.

During informal discussions with Honourable Legislative and Executive Councillors, Mr Adrian Monk suggested a levy of 20p per sheep would be preferable to a levy on wool, since there would then be an incentive to farmers to improve the quality of their sheep and weed out the poorer specimens. The revenue from such a levy would be greater (about £125,000). than that proposed on wool - a 10p levy would be adequate, but if something more than a mere estate duty substitute were required (e.g., a levy to raise money for road maintenance), a levy on sheep might be preferable to one on wool.

If, as seems desirable in the long run, a formal land tax or "rate" is accepted as part of the fiscal scene, the question of valuation would arise. It would be ludicrous to think in terms of having the lands of the country appraised by teams of surveyors and valuers, but, at the other extreme, to run a tax based merely on acreage, as is done in some countries would be manifestly unfair.

Universal Values

One concept of valuation, known as "universal values" is to compute valuation figures which would apply for more than one purpose, e.g., in the Falklands

- a) as a yardstick of value when determining appropriate sale or lease terms for farms allocated to individuals (see Wider Ownership of Farmlands);
- b) as a valuation for tax purposes, and
- c) as a valuation for possible take-over by Government should the land be required for public purposes.

For the sake of simplicity it might be worth pursuing this "universal" concept, but in that case the truer measure of value would presumably be wool output rather than mere head of sheep. For example, the published statistics indicate wool output varying from 6.7 to 10.4 pounds per sheep shorn and this is presumably a reasonable accurate reflection of the productivity, and hence value, of the farm. On the other hand where, say, an island with good pastures, tussac, etc. is being "run down" by untended flocks of wethers the short-term value on a "wool basis" might be unduly high and one should perhaps allow for this in particular cases.

Although it does not seem to the writer that Government should become involved in buying up farm-lands, except as a last resort, if it does so a value based on wool production would seem to be more appropriate.

Valuation

Apart from valuing land by converting the amount of tax visualised into suitable assessments and tax rates, one may have recourse to systems already in use. Mr Tony Blake has suggested a formula, based on New Zealand and local experience, and referring to the sheep, cattle, and horses on the property and in addition properties including land, livestock, housing, buildings, etc. have been changing hands on a valuation of £6 per sheep (see also "Wider Ownership of Farmland").

A tentative table has been drawn up, embodying these concepts, and also the approximate yield figures for taxes at 20p per sheep and 1p per lb. of wool for illustrative purposes rather than as firm proposals. This is based on published stock etc. returns and has been bound separately from this Report.

Graduation of Tax Rates

A concept favoured by some economists, and actually adopted in some countries is that of graduation of rates.

The theory is a mixture of two concepts,

- a) that larger holdings can make greater per-acre profits than smaller units,
- b) that graduated rates will lead to the break-up of too-large estates.

The two concepts are not really compatible and the real objective is based on a feeling that smaller holdings are more socially desirable.

In the Falklands it is possible that there could be greater productivity at two levels,

- (i) the viable island unit where the "sturdy yeoman" farmer may well produce more than the employee of a large company, and
- (ii) the large land-holding where there is scope for economies of scale.

In general it seems preferable to avoid sharply graduated rates of tax (in Australia, where there was an avowed objective of breaking up larger holdings the rates ranged at one time from $\frac{1}{2}\%$ to 3% of capital value) because economies of scale, though clearly worth having, are not usually proportionately large. If consideration is given to graduation at all in the Falklands, it should only apply above a rather large-sized holding and then as a recognition that the efficiency of the largest holding does create a little more taxable capacity.

If the largest units were taxed a little higher than others it would be a matter of routine to ensure by simple legislation that the higher rate was not avoided, e.g., by purported fragmentation of property into separate companies all under common shareholder-control (see also "Hypothecation of Revenue").

MEDICAL SERVICES CONTRIBUTION

A feature of the fiscal system in the Falklands is that there is very little of what is termed "payroll taxation" or "social security contributions". Old Age Pension contributions are the main item of this type and the present rate of contribution is £1.08 from the employer per week and 72p by the employee. The contributions are paid into a fund and the projected employers' contributions for 1977/78, based on figures kindly provided by Mr M. Luxton, Assistant Secretary to the Treasury, amount to about £36,000, while employees will contribute about £24,000.

In the Falklands the total earnings of employees in the current year are likely to exceed £1.5 million and of this the proportion paid by Government is something over 2.4 million. A flat levy of 5% on the total payrolls would produce revenue in excess of £75,000 - of this Government would contribute, over £20,000 in respect of his own employees. A corresponding levy on employees of 1% would produce over £15,000 making a gross total of over £90,000, i.e., roughly half the expenditure projected for the Medical Department for 1977/78. If a new levy of this kind were introduced in the present circumstances it is envisaged there would be a corresponding reduction in other taxation preferably in the realm of personal income tax.

This is not the kind of proposal that can be dealt with in isolation but only as part of the general package which would involve some swings and roundabouts adjustments elsewhere. Apart from the fact that social service levies are very widely adopted in other countries it does have the inherent advantage that it is a more stable source of revenue than income tax in the Falkland Islands which is so dependent as far as the corporate sector is concerned upon the price of wool.

The proposed levy, perhaps to be called "Medical Services Contribution", would preferably be made entirely without "attribution", i.e., there would be no stamp cards for employees or employers and the revenue would be hypothecated, or allocated to Medical Services in general but not to specific items of service. The levy would be simple to administer since it would merely involve a charge of, say, 6% on total payroll of which 5% would come from the employer and 1% from the employee. The payments would be made jointly by the employer once a month, and the law required to introduce this measure could be a very simple one indeed.

Position of Individual : Contributions and Charges

At present £18,000 is projected as revenue for 1977/78 from sundry medical and dental fees, the actual amount collected for 1975/76 was about £11,000.

The cost of collection of many small fees must be high and the efficiency of collection has not always been as good as it is at present. It is always invidious having to collect small sums from the sick and the poor, and while nothing resembling a National Health Service ought to be envisaged, it would save a lot of clerical time and put more of the financial burden on those better able to pay if as proposed above the levy were made on those at work rather than those off work.

As indicated above the revenue raised from a simple "at source" levy should exceed £15,000 and this, together with such charges as the Medical Department advised should be retained, would perhaps produce, at less cost, the same revenue without putting a greater burden on employees and their families as a whole than the present system.

The usual objection to a system of financing medicine by flat rate levies on the whole working population is that some will abuse the service and become malingerers. It is understood that this development is not considered by the Medical Department to be at all likely in the Falklands, although most countries have a proportion of hypochondriacs, the proportion is rather lower here than elsewhere. At any rate, if it were found that if freeing any particular service from charges caused abuse, the charge could be restored.

Effect on Other Taxes

Since the object of the M.S.C. would be to shift the emphasis of taxation rather than increase total yield, consequential changes would be needed in other taxes. For example, the contributions by employers would be deductible in computing their taxable income, it might be reasonable to make the individual employee's contribution deductible - practice in other countries differs in this respect.

Self-Employed

Individuals in business or professions as partners or sole proprietors would be able to deduct contributions made in respect of employees. They would also be liable to pay both sections of the levy in respect of themselves - based on their net profits. The obvious offset from other taxation would be some modification of the rates of personal income tax. In the case of companies the tax structure, as noted in Section A of these notes, already requires overhaul e.g., towards a 2-rate system with lower rates for smaller companies.

Effect on Salary/Wage Structure

For the past two years, Budgets in Britain/employees have received pay awards, partly in (restricted) cash from the employer, and partly in the form of income tax reductions granted by the Chancellor of the Exchequer, the current "deal" including substantial increases in personal reliefs. Clearly a change in tax structure which transferred a proportion of medical expenses from general taxation to a levy on employers with a consequent reduction of personal income tax on employees* would be a factor that might be borne in mind in negotiations.

(*and some employers)

To sum up, a Medical Services Contribution, levied mainly on employers, should produce rather more than half the medical services vote (over £90,000 out of £180,000). The employees' contribution would in total be about the same as at present but would be levied in a much simpler way. The change would involve alterations to other taxes, but would be rather more than a mere re-shuffling, since there would be some social benefits.

If the change is seen as too drastic to be taken in a single step it could be made in a series of stages.

IMPORT HANDLING CHARGE : RETAIL PRICING POLICY

The possibility of having some levy on commodities apart from the customs duties on alcohol and tobacco has been briefly considered by previous Missions but no practical scheme has been put up which would justify the administrative cost.

It would, however, be possible to instal a small percentage levy on imports generally, such as is done, for example, in the U.S. Virgin Islands (otherwise a more or less duty-free zone) at 2½% and some other islands under various names such as package tax, turnover tax or customs handling charge.

A 1% levy (on retail value) would produce over £15,000 and a 2% charge (one should not consider anything higher) over £30,000, if it was desired to use this way of diversifying revenue. It is, of course, fairly usual to levy duties or taxes on imports other than perishable foodstuffs and administrative costs would be low since cargoes only arrive a few times a year.

Regression

Any flat rate levy on commodities may be criticised as being harder on the poor than on the rich, but a 1% or 2% levy would be less significant than the retailer's mark-up. Of the three largest shops in Stanley one uses a 25% mark-up for necessities and a 50% mark-up for luxuries while the others use respectively a 30% and a 35% mark-up on all goods.

If say a quantity of flour is imported at £1.00 and sold at £1.30 (with a 30% mark-up), the suggested levy would amount to 1.3p or 2.6p. The way to avoid any possible hardship would be to ask retailers to adopt a mark-up of, say, 20% on the "sensitive" items such as flour and sugar and make up the difference on the remainder of their products.

Mechanics

Government has to supervise imports (through the Customs Department) and the Police, and Fire Brigade have certain duties in connection with the unloading of ships so that it is not unreasonable that a levy should be made on imports generally.

Since the exact C.I.F. value of imports is not apparent immediately they are landed, importers would be required to pay an estimated sum on account.

The present procedure is that importers subsequently report in detail the quantities and values of the goods imported on "duty-free entry" forms for statistical purposes. When these documents are completed the full charge can be computed and the balance paid over.

It may be thought the returns would not necessarily be accurate, but all sales taxes and all other levies on commodities are made on the basis of the largely unchecked returns of traders. It is not envisaged that any checking (other than arithmetical) of the returns would be made, nor that cargoes would be minutely inspected. Any material under-statement would tend to become evident and at a later stage one could devise methods of control,

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but it is unlikely that a small levy of this kind would generate widespread evasion in a country where tax compliance is at a very high level.

Application

It is not envisaged that an Import Handling Charge would apply to parcel post imports which would already have paid, in effect, a Post Office handling charge in pre-paying the postage. Nor would the levy apply to goods imported by air which would instead be subject to whatever charges are imposed when the new airport comes into use.

EXCHANGE CONTROL

Exchange control on investment from overseas in the Falklands and on the ploughing back of profits derived from the Falklands has two facets.

On the Falkland Islands side the Government has not so far sought to restrict the outflow of profits referred to in the Shackleton Report, leaving it to the discretion of the companies concerned.

At present Government has proposed an issue of development bonds ("Housing Bonds") and invited subscription by the corporate sector, this will be followed up by other types of investment more suitable for individuals. If these initiatives are successful it will indicate that the practice of adopting a non-restrictive policy is preferable and that the private sector will in fact respond to appeals.

One or two minor amendments are necessary to the position as set out in the Shackleton Report. One item of fact concerns the statement at page 26, that the Falkland Islands Company distributed 96% of its profits after tax in the 5-year period 1970-74, while nine other companies distributed 59% of their aggregate after-tax profits. In their response to the Report the Falkland Islands Company mentioned that the correct figure for their company was 94.4% and that the 1970-74 period was an exceptional one.

The Falkland Islands Company also comment that the country-wide percentage for distribution of profits, estimated by the Shackleton team at 90% was, by their calculations, under 80%. At any rate, by either calculation the rate of distribution is high compared with under 50% in the U.K., where dividend control is in force, and several Falkland camps have their headquarters.

The Bank of England have clarified the Exchange Control rules as they affect investment in the O.S.A. (Overseas "Sterling Area" - to which the Falklands belong).

The U.K. Exchange Control authorities expect U.K. parents of profitable overseas subsidiaries and branches to ensure that an appropriate percentage of after-tax profits be remitted, as follows -

- a) the normal yardstick is that one-third may be retained overseas, i.e. that $66\frac{2}{3}\%$ should be remitted; subject to
- b) if there are local restrictions on the remittance of profits the authorities do not penalise the parent if the overseas operation is compelled to comply, i.e. where more than $33\frac{1}{3}\%$ of profits have to be retained locally.

The rules are of course academic at present because no restrictions are placed on the remittance of profits in the Falkland Islands.

The matter is referred to also in Appendix I of this Report and in the section dealing with Development/Housing Bonds.

DEVELOPMENT BONDS

As a practical measure it was proposed at an early stage in the writer's assignment that an offer be made of bonds to raise finance for lending on for development projects.

The most immediate demand is for housing loans and since Government has just bought nine houses and intends to put some of them on sale, it is clear that there may be early instances of how demand (for loans) and supply (through bonds) may come together. Accordingly, the first type of bonds actually to be required were those for housing. Whether these are issued specifically for Housing as originally envisaged or are issued as Development Bonds is not of great moment to the investor, the interest on, and repayment of, whose investment will be guaranteed by the Government.

It may be, however, that all bonds issued should be termed "Development Bonds", Series 1, 2, etc., since it is envisaged that other projects besides housing may eventually be financed in a broadly similar way. In the transitional stage the existing Revolving Fund will no doubt still be used to deal with applications for small business loans.

The matter of bond issues was first raised in a paper to Executive Council (see Appendix I "Housing Bonds") and discussed informally with Legislative and Executive Councillors. Invitations to subscribe to prospective issues were then sent to all companies operating in the Falklands and subsequently discussions were held with the Sheepowners' Association, whose members are currently considering the matter, in some cases in conjunction with controlling boards of directors in Britain.

It is easier to identify the need for housing finance than other viable development projects, and where the house already exists, or is built speculatively by a builder there is no problem about security for a loan as the property may be mortgaged. Nevertheless minor business projects have previously been financed and fortunately the management of Government loan funds is entrusted to bodies whose members have business experience and who generally know the capabilities of the would-be borrowers.

In the original paper on Housing Bonds it was envisaged that tax-free as well as taxable Bonds might be issued, but interest rates have fallen sharply in the last few weeks and it is no longer possible to contemplate offering a higher tax-free rate of interest than the 5% presently offered on Savings Bank deposits, nor is it really appropriate to offer tax-free interest to a limited company. Eventually a company's profits are paid out in dividends and it is not too practical to ensure that a shareholder may have a fraction of his dividend (the amount proportionate to the tax-free part of the company's income) free of tax so that the benefit to the company is eventually "clawed back" from the shareholders.

The probability is that there will eventually be some adjustment or variation of Savings Bank interest to suit the needs of different depositors and there will be no direct conflict between Bank and Bond rates.

BANKING : EXTENSION OF SERVICES

The writer was asked to survey the Falklands "banking legislation and apparatus with a view to attracting private banking operations". In addition his attention has been drawn to the comments on the running of the Government Savings Bank appearing in the reports of Garth Armstrong, Comben-Waller, the Lord Shackleton Mission, and in savingsgrams from the F.C.C. (see Section A).

2. A number of banking services are already provided in the Falklands on a very economical basis considering the size of the population. Services include:-

- (a) exchange of foreign currencies on demand (by Treasury);
- (b) cashing of personal sterling cheques and travellers' cheques (by Treasury);
- (c) issue of travellers' cheques (by private firms);
- (d) limited current account and cheque-drawing facilities;
- (e) loans e.g. for house-building, and certain business purposes granted at relatively low interest (2½% to 7% by Treasury) (6½% to 9½% by private employers to employees);
- (f) relatively generous rate of (tax-free) interest allowed on Government Savings Bank accounts (5%), some of which are used virtually as current accounts, without bank charges;
- (g) profits of G.S.B. taken to general revenue for benefit of the people as a whole. Since there are more Savings accounts than members of the population, it seems that virtually everyone has such an account so that the interests of depositors and taxpayers as a whole are not so very dissimilar.

3. By contrast it is useful to bear in mind -

- (a) that a community in Britain with a population of 2,000 might not have a bank at all. In discussions with the Bank of England and Barclays Bank International it was mentioned that the minimum population for a branch of Barclays would probably be about 7,000 - and this might be a small unit where a bank official would only attend, say, on market days.
- (b) only a relatively small proportion of banks in Britain deal instantly with foreign exchange. Most have to change money, issue travellers' cheques etc. through correspondence with a larger branch. Even in the City of London, one is often referred to Thomas Cooks or to other specialist banks for foreign exchange by quite large branch banks.
- (c) in the United States foreign exchange transactions, even the cashing of sterling travellers' cheques, is done only by banks with "National" in their names. One is sent empty-handed from the most imposing multi-storeyed marble halls of other banks.

- (d) virtually no banks in Britain or the United States grant mortgages on property, or very long-term business loans. Overdraft facilities are normally backed by securities or collateral and are renewable at 6-monthly intervals.

4. What is most needed in the Falklands seems to boil down to -

- (a) Housing finance;
- (b) Finance for new business ventures;
- (c) Rapid procedures for changing foreign currencies when a tourist ship visits Port Stanley;
- (d) Some sort of GIRO or other simple system for paying third parties money out of Savings Bank accounts.

Separate proposals are being made to deal with (a).

With (b) the difficulty arises only in the case of those would-be entrepreneurs who are short of capital, and also of security for a loan, to finance a new venture. Such persons have problems in every country in the world. Some countries set up special Development Banks to lend to would-be entrepreneurs who cannot obtain finance from commercial banks - sometimes such Development Banks become willy nilly an agency for making subsidies (i.e. loans that are in practice never repaid).

5. At present applications for business loans (out of the revolving fund) are dealt with by ExCo who probably have a better idea of the applicant's credit-worthiness and the viability of the proposed venture, than say, an expatriate bank manager with experience of deciding whether or not to make a loan. In most countries bank managers make both good and bad decisions about which customers are loan-worthy - there is no ultimate expertise on the subject.

6. It would be useful to identify what projects and how many of them have had to be put into cold store over the past few years through lack of finance when the subject could be gone into in more depth. For the present, if housing can be dealt with, as suggested, by Housing Bond issues, the revolving fund could be used for business loan applications (perhaps charging 8% instead of 7%).

Foreign Currencies

7. Since the Treasury cashes Travellers' cheques, it would seem reasonable that it should also be able to make a small commission by selling them. Investigations into this possibility are in progress. (See further notes below).

8. It seems possible that the Treasury could extend its foreign exchange dealings with no undue risk, provided smooth routine procedures can be established for disposing of any undue accumulations of foreign currencies. An enlarged facility could be profitable, would help tourism, and might encourage large purchases by tourists from Falkland Island shop-keepers. This matter is being actively explored, and is considered more fully under a separate heading.

9. It is understood that recently the convertibility of some South American currencies has improved and since tourists seem to appreciate the duty-free shopping in Port Stanley the outlook is reasonably bright. (see paragraph 18 below).

10. Travellers' Cheques

A commission, usually at 1%, is charged by banks and agencies issuing travellers' cheques. Comparatively large stocks of the blank cheques can be kept in secure store at no cost since the cheques do not become the equivalent of money until they are actually issued.

On issuing cheques, normally for cash, the issuer must then send a remittance to the concern whose cheques are being used (Barclays, Thos. Cooks, American Express) - the time lag between receiving the cash and the cashing of the remittance by the cheque concern may give a small cashflow advantage to the issuer.

Apart from accounting for the proceeds of cheques sold, the issuer may have the responsibility of dealing with cases where cheques have been lost by or stolen from the purchaser, but in general there is a useful net profit on the issue of the cheques.

As Government appears to do the bulk of the foreign exchange and banking business (in year to 30 June 1977, £128,000 sterling instruments negotiated, £23,500 in U.S. dollars, as well as German Marks, Canadian dollars, Argentine pesos and other currencies) and deposits in the savings bank amounted to £1,760,000 at 30 June 1977 it seems reasonable that it should consider entering this field. The staff of the Treasury is at present one under strength but travellers' cheques are very much a part-time job for the person(s) in charge. Recruitment will eventually take place and the above and other suggested new services below will no doubt be absorbed along with the extra profit it is hoped will accrue from them.

11. Savings Bank - Extension of Services

Two types of withdrawal are possible, direct drawings by the depositor, and third-party withdrawals in favour of another person. Authority for the latter must be given by the depositor's signature countersigned by a witness, in both cases the pass book must accompany the withdrawal slip. Third-party withdrawal slips are in practice sometimes handed over like cheques to the person or firm (sometimes the Income Tax Dept.) to whom the depositor owes money. At present the slip is not honoured by the Savings Bank until the pass-book is received.

12. Submission of Pass-books

In some countries, although the passbook system is retained, debits and credits to a savings bank account are made in the absence of the book, which is updated at the year end, or whenever sent in for "making up", no doubt with some saving of time for the bank officials.

13. "Cheque" Service

If third-party withdrawal slips were issued in booklets of, say, 20 at a time with counterfoils (to be retained by the depositor), and if the witness signature were eliminated, the Government Savings Bank would be providing a cheque-book service, with little risk of loss (if submission of pass-books was forgone) in a small community since the Savings Bank would only honour any cheque issued if there was an adequate balance in the Bank ledger for the depositor.

14. Standing Orders

It may be possible to accept instructions from depositors to make certain regular payments to third parties on their behalf (e.g., electricity bills, Stanley rates) at a later stage.

15. Variable Interest Rates

With the rapid decline of interest rates overseas, particularly in Britain, and if local services are extended it may be necessary to offer the highest rate of interest to those whose accounts are fairly "dormant", and a lower rate to those who use the extended services.

While the "tax free" featured should be retained, it should perhaps be examined with regard to its impact on corporate depositors.

16. Financing of Exports and Imports

One facet of banking (usually the prerogative of merchant banks and Discount Houses rather than ordinary town branch banks in Britain) is the finance of exports and imports.

In the Falklands, exports of wool are carried overseas by the vessel chartered by the Falkland Islands Company which company also handles most of the marketing of Falklands wool in the United Kingdom. The company finances the cargoes where required, charging the going rate of U.K. bank interest and taking a lien on the cargo.

This is a most useful service which has every kind of logic behind it, and there is no case for Government to enter this field.

In discussions in London with the Bank of England and Barclays International export and import finance was mentioned as one of the services which could be rendered by a commercial bank - clearly the service is already being rendered and there is correspondingly less scope for a conceivable commercial bank in Stanley.

As for imports the scope (or even the desirability) of a substantial increase in these, financed by borrowed money (which would add to costs and, therefore, price levels) must be limited. It is true that sometimes the existence of bigger stocks of some goods would render them less likely to run out before new cargoes were received, extra stocks would, however, have to be financed and by now most households are probably used to keeping their own "buffer" stocks of scarce goods; some individuals even import some supplies directly or through a commission agent.

Falkland Islanders have a good reputation for thrift and economy, a national attribute which can be most valuable in hard times. There does not really seem to be a great need to increase banking facilities for the sake of expanding imports.

17. "Cambio" Facilities for Tourists

The proposal that on the few days per annum that cruise ships call, and tourists swarm ashore for duty-free shopping, a cambio or money exchange service be supplied near the disembarkation jetty is examined under the heading of TOURISM.

18. Foreign Exchange

It was learned on the date of this Report that the way now seems clear for the routine regular exchange of foreign currencies accumulated by the Treasury so that a reasonably profitable business in such transactions seems assured.

19. Conclusion

As will be seen from the above a wide range of banking transactions is done, efficiently, by the Treasury and could be simply extended without much difficulty. Export financing is done as a commercial rather than a banking transaction by the Falkland Islands Company, and loans are already made from Government's revolving fund (and to employees by the FIC) at moderate rates (well below overdraft rates in the U.K.) while the provision of more formal housing finance is now in the pipe-line.

Possibly no-one will accept that there is a "bank" in the Falklands until someone erects a sign-board to that effect. It may be that it would be a good psychological move to constitute a Government Bank formally, and carry on business more or less as before.

Some extension of lending capacity is implicit in the moves to retain funds in the country through the issue of bonds. Anyone who imagines that because a bank exists he can automatically have a loan would be disenchanted if a commercial bank were set up here. Any such requests to the Government Bank would be referred to the separate lending panels dealing with the revolving and development/housing funds.

The Government Bank (the F.C.O. would advise on a suitable title) already has "correspondent" facilities with other banks through the Crown Agents, but these could be extended, if necessary.

It is strongly recommended that these formal steps be taken so that Government retains for the future the substantial profits it already earns from banking. As noted, there is some scope for extending services, and if more profit still can be earned there will be more career opportunities for Falkland Islanders in this sphere. The writer will hope to advise further on this proposal and its implications on his return visit.

Incorporation of Bank

Finally, if it thought that "The Bank" in Stanley should be a separate entity from Government a possible precedent is that of

St Kitts where a Savings Bank was converted to a National Bank, the Government holding 60% of the shares and local business men 40%. The main considerations would be not to lose the present high productivity of the Treasury staff by living off the bank altogether with a separate staff nor to reduce the Government's revenue from all its present banking activities. If there were to be private sector participation it would have to be matched by extra services and profits being brought in as well as a share subscription - which could be for anything from 1% to 40% of the capital.

BUILDING SOCIETIES and HOUSING FINANCE

It has been suggested by the Falkland Islands Company that housing finance be provided in the Falklands by a building society set up with directors consisting of the General Manager of the Falkland Islands Company, the Honourable Financial Secretary and an Honourable Member of the Legislative Council. The capital to be aimed at is £75,000 and the margin between interest paid to depositors and interest charged to borrowers would be $\frac{1}{2}\%$. The capital would be drawn by attracting money out of the Savings Bank by allowing higher interest rates to depositors. No cash contribution by FIC or other companies is envisaged.

Merely to extract money from the Savings Bank for housing would not achieve anything in the way of keeping money in the country that might have otherwise gone overseas. The writer has suggested elsewhere in this Report that Development Bonds might be a better way to achieve a dual purpose.

It might, however, be worth saying a word or two about building societies. They were developed in Britain over a period of about 200 years, beginning with small organisations and friendly societies and the first main act governing the activities was in 1874, just over a hundred years ago, and are non-profit making institutions. Other features are -

- a) Fluctuating interest rates. The amount of interest allowed to investors and the amount of interest charged to borrowers are separated by a gap of a few percent but the rates move up and down at the decision of the building society in accordance with the going money market rates of interest. Three or four years ago, a person who had borrowed 8% found after a year or two that his borrowing rate had increased to 11% or more because of the tremendous increase in interest rates generally. Similarly the investor finds that the interest rate allowed to him increases when interest rates generally are rising but at other times the interest he gets falls.
- b) The deposits sought from the borrower by the building society, that is the amount of money he must put down towards the purchase of a house, varies from 20% to 30% but it can be a good deal less especially if Government or the local authority come in with some special low cost housing scheme.
- c) In addition the Building Society insists on making its own survey and valuation of the house and this is charged to the borrower.
- d) A new feature of building society practice in Britain is that preference in lending is given to those who have been investors in the society for periods up to two years and who thus have shown that they have a capacity to save money steadily and therefore should be able to meet the repayments and interest payments regularly.

- e) The money borrowed from investors is borrowed largely on short-term and if the investor really wants his money back he can usually obtain it without giving the notice which may vary from a week to a month in the case of ordinary savings accounts but is rarely invoked. On the other hand the lending is often at quite long terms, 20 to 25 years is not uncommon and in fact nowadays there have been cases where a society has lent for 30 years.
- f) The investor receives a rate of interest which is partially tax-compounded, that is up to the standard tax rate, which is now 34%. There is no tax for him to pay unless he is liable to tax at a higher rate. In that case he has to pay the higher tax on the interest he gets grossed up by reference to the 34% compounded tax (which is covered by a composite payment by the society on behalf of all its investors as a body) less, of course, a deduction for the 34% which is credited to him.
- g) Currently the investing rates are around 6.7% (tax-compounded) and the mortgage rates are around 11½%. Rates of interest are however falling on the London money market and inevitably this will bring down both the borrowing and the lending rates by the building society.
- h) One curious thing is that there is some sort of penalty on early repayment of a mortgage before the due time. This presumably is to cover administrative expenses since the society is being put to the trouble of relending the money earlier than it had expected to. This feature is much criticised and it may perhaps one day be abolished.

It is a well known law in banking that you must not borrow short and lend long. This is exactly what building societies do and the essence of their viability is that they are an old institution and they can count on investors leaving their money in the society for lengthy periods even though they could if they wished withdraw it at quite short notice. There have been instances in recent years of larger societies coming to the rescue of smaller ones when the latter were under pressure.

It has always been a point in favour of building societies that they provide the magic "tax free" element to investors and a good deal of their investments come from little old ladies who do not want to bother with income tax returns of income from their savings and so they put their money in building societies.

It does not necessarily follow that the building society idea could be transferred to another country with immediate success. There would have to be a slow build-up of investments before one could contemplate lending money out and if it were merely a manner of redirecting some investment out of the

Savings Bank into a building society there would not be very much net gain.

Other Types of Financial Institution

There are of course other possible types of financial institution to deal with housing, such as the State and Federal "savings and loan societies" which are a feature of housing finance in the U.S.A. At a lower level there are in some countries friendly or working mens' societies which provide housing finance sometimes on a tontine basis where money is accumulated from regular contributions by the members and then lots are drawn to see who may be first to draw money from the kitty to finance a house.

At present in the Falklands the Savings Bank provides useful services (it is hoped to extend these) and also gives a pretty generous rate (5% tax free) of interest on what some people use as current accounts. It does seem possible before not too long that the interest may have to be slightly reduced because of the fall in world interest rates.

Meantime the money invested is money at call, that is, it can be withdrawn at any time and traditionally the rate of interest on such money is appreciably less than that on money invested at longer terms.

Revolving Fund

Certain sums of money have been lent out of moneys put aside by Government in a revolving fund at rates from $2\frac{1}{2}\%$ to 7%. Future loans probably ought to be at 8-9% unless there are special circumstances. Finance has been provided in small ways for business and housing purposes - see Table.

Bonds

What is presently proposed is to start providing a new type of (housing) finance by the issue of Development Bonds for 5 or 10 years. These would be matched by loans for similar periods. Of course it would not be expected that borrowers could repay all the money borrowed within 5 or even 10 years but there would of course be the possibility of re-financing at the end of the chosen period at the then going rate of interest, which might be higher or lower.

Such bonds form a flexible kind of system similar to that used by some of the savings organisations in the U.S.A. It would seem to be reasonably appropriate in the circumstances of the Falkland Islands where in many cases the people who borrow money for housing seem to repay over a much more limited time-scale than in countries such as Britain. In fact much of the housing finance put out by the Treasury from the revolving fund seems to have been repaid within ten years and in some cases at much shorter periods (see Table). Of course there are many other ways of raising finance or creating "National Savings" by issues of Government securities. The development bond is really the first attempt in this direction and once these are "off the ground" there will be scope for considering other kinds of investment more suited to the smaller man.

Table VII : Revolving Fund Loans in Force
in Year to 30 June 1976

<u>Period of loan</u>	<u>Houses</u>	<u>Other Purposes</u>	<u>Total</u>
1 - 6 years	1	7	8
7 - 10 years	11	1	12
11 - 17 years	9	-	9
18 - 28 years	-	1	1
	<hr/>	<hr/>	<hr/>
	21	9	30

STERLING AREA AND STERLING LINKSterling Area

The Falklands were formerly in the "sterling area", membership of which has now been reduced to Britain, the Channel Isles, Isle of Man, Eire and Gibraltar.

An advantage of re-joining would be that investment from sterling sources in the Falklands would be easier for residents of that area. The disadvantage is that money would have to be allowed to flow out freely (within the sterling area) whereas at present the Falklands have the right, not so far used, to control by their own exchange restrictions the outflow of funds from the Falklands.

As noted under "Exchange Control" overseas companies trading here and resident in Britain are allowed to re-invest a proportion of their after-tax profits without falling foul of British Exchange Control. Moreover, from talks held with Exchange Control officials in London, the writer has learned that if a company keenly desires to invest productively in the Falklands, or elsewhere in the old sterling area, exchange control problems can usually be sorted out.

There seems to be no actual evidence of an intended investment here being frustrated by UK Exchange Control restrictions and of course investment here by any other country's entrepreneurs is unhindered whether we are in or out of the sterling area.

The writer took up with the Bank of England the point of whether the Falklands would be permitted, if they wished, like Gibraltar, to rejoin the sterling area and the "off-the-cuff" view was that it would probably not be possible.

Sterling link

By linking the Falklands £ to the £ sterling it is much easier to conduct trading operations between the two countries and since most of our external trade is with the UK there is a good deal of logic in the link.

The drawback is that one tends to import monetary inflation which has in recent years been rather higher in Britain than, say, in the U.S.A. or in the E.C.M.

This does not affect our terms of trade since wool is sold on the world market and the goods one can buy with a kilo of wool do not vary very much (the principle of Purchasing Power Parity) between different markets. In fact since the world prices of raw materials tend to be more volatile than that of manufactured goods, on a rising wool market one can often buy goods cheaper in a country where inflation does not work its way through so quickly to the final product.

Thus one may find British goods on sale in Stanley (shipping delay is another factor) a good deal cheaper than they may be bought at the same date in London while the price of wool may rise (or fall) from day to day.

Severing the connection with sterling would presumably involve basing the value of the currency of another international monetary unit, or of a "basket" of currencies as is done by some other ex-sterling-linked currencies.

A single unit would presumably have to be the U.S. dollar and this would be convenient for tourists from North and South America, though less so for use in UK-Falklands trade, or dealings with H.M. Navy ships and B.A.S., though the dollar/sterling quotation is readily obtainable.

To base the Falklands £ on a basket of currencies would be more troublesome because separate rates of exchange would then have to be worked out for all other currencies.

At the present time sterling has had a period of comparative strength against the dollar. With the increasing inflow of North Sea oil and gas the prospects for the £ are reasonably good and it may be entering a period of stability against other currencies.

Linking the Falklands £ to another currency or other currencies would not increase the value of wool exports or reduce the price of imports in real terms. The evils of inflation within the country are broadly counterbalanced by indexed adjustments and the Old Age Pension Fund investments are largely in equities to preserve them against inflation. Meat and vegetables produced within the country are to some extent inflation-proof.

On the whole it seems doubtful whether the case for changing the Falklands sterling link for a link with other currency or currencies is strong enough to warrant any immediate action.

NUMISMATICSBase Metal

The Falklands have only had their own coinage since 1974 when the coins minted were the $\frac{1}{2}$ p, 1p, 2p in bronze and the 10p and 5p in cupro-nickel. The sets were originally priced at £4.50 and subsequently the Mint raised the price successively to £5 and then to £5.50. Those being held by the Mint have now been sold out and there were only 100 sets or so in the Falkland Islands when the price was also recently increased to £5.50 in line with the value of money. This price increase resulted in a brisk renewal of demand; the stock of sets is now below 100. The total number of sets minted was 16,800 of which 900 were sent to the Falklands and 2,000 were taken by the Royal Mint without commission to cover expenses. The remaining sets were sold, mainly at £4.50 with a 25% commission to the Falkland Islands Government thus realising a total sum of over £15,500.

Apart from the proof sets there was a huge demand for the uncirculated non-proof coins and thousands of these, especially the bronze coins, were taken up by collectors in various parts of the world. As the 2p, 1p and $\frac{1}{2}$ p pieces were minted at a cost greater than the face value many such sales were made at a loss which was of no advantage to the country except possibly as an advertisement of the fact that there was now a coinage in the Falklands. In the case of some large orders, however, the Mint sold the coins at cost of production (i.e. above face value). Of the 5p and 10p pieces, Mr J.L. Williams bought 12,000 each out of initial stocks of 62,000 and 82,000 respectively.

This experience does rather lead to the conclusion that perhaps one should try to remove at least the $\frac{1}{2}$ p coin from future issues and perhaps find a cheaper way of minting it and the 2p and 1p coins. The Seychelles used aluminium for their one cent, Tooth rupee, coin.

Gold Coins

Apart from the base metal set the Royal Mint struck gold coins in sets of four, a $\frac{1}{2}$ sovereign, a sovereign, a £5 and £10 pieces and these had brought in £23,068 revenue by June 1977, a useful sum but not as much as had originally been hoped for partly because of the enactment of a ban on British residents buying these pieces after the decision to go ahead with the issue had been made. By June 1977 the sets were on sale by dealers at roughly twice the price charged by the Royal Mint. Although gold coins cannot be marketed in Britain, they can be sold overseas, e.g. in the U.S.A.

There is one minor relaxation in respect of Britain. A U.K. resident who has bought a Falkland Islands gold coin overseas for his personal collection and brings it back to the U.K. normally requires an import licence to bring it into the country. In practice, however, the U.K. Customs make the following concession -

"Where up to two or three gold coins are imported as personal effects the licence requirement is normally waived provided the Customs Officer at the place of importation is satisfied as to the bona fides of the case including, for example, that the importer does not intend to sell the coins.

Coins not admissible under the above concessionary arrangements would be liable to seizure in the absence of a licence, but permission to re-export would be considered in individual cases."

Commemorative Issues

The question of having a coin in honour of the Royal Jubilee and issued by the Royal Mint cropped up in 1976 and early 1977 but no decision in favour of the issue was made. This was because the Mint were not initially enthusiastic about the prospect thinking that there would be about two dozen countries taking part and therefore no great revenue going to any one of them. Meantime the disposal of Falklands' gold and base sets was still in progress.

In the event only six countries joined in the Jubilee coin omnibus issue and each did extremely well. In fact all the Jubilee year issues of stamps and coins did better than anyone had expected. Accordingly when the writer discussed the matter with the Mint on 13 May 1977 he was informed that there were still prospects of getting in on the Jubilee coin boom. On the same day as the initial telephone conversation with the Mint Mr A. Lotherington sent a letter by messenger which arrived the same day outlining the proposals. In the course of two brief telephone conversations with the Falkland Islands the issue was agreed and the design chosen by His Excellency the Governor and the Honourable Financial Secretary and design work started immediately. Thanks to the services of the Royal Mint the speed with which the whole operation was put in hand probably made numismatic if not colonial history.

In order to overcome the illogicality of having a crown piece as in Britain which is about twice the size of the 50p piece but only worth as half as much it was decided that the Falklands crown equivalent should be of the value of 50p and that later possibly a 25p coin would be introduced of a somewhat smaller size. Initially it was thought that the bringing in of the definitive 50p coin would necessarily mean the demise of the 50p note but upon second thoughts and at the suggestion of the Honourable Financial Secretary it was decided to think in terms of retaining the 50p note and having the 50p definitive coin in due course circulating alongside.

This in fact is the situation in the U.S.A. where there is a one dollar note and also a one dollar coin which used to be a silver dollar but which is now made of cupro-nickel. The coin circulates to a limited extent and is used especially in places like Las Vegas where the dollar coin forms the dollar chip for gambling purposes or for insertion in gaming machines.

In fact the Falkland Islands 50p piece is the same size as the U.K. Crown, slightly larger than the U.S. dollar. It is understood that coin collectors tend to prefer large coins so that the choice of this size for a commemorative 50p piece has

the joint advantages that the further issues of a definitive coin can be legitimately made not too long after the Jubilee commemorative piece. There may be considerable interest in buying proof copies of it while one should be able to sell a fair number in presentation cases to tourists who would be more likely to buy the uncirculated version than a silver edition.

Definitive Coins

The Royal Mint has suggested that a whole new definitive coin issue might be made, perhaps in the latter half of 1978 as a second coin issue to include a new 50p and 25p coin. Although this seems a little soon after the issue of the original coinage there are legitimate reasons for making a new issue. The original coin issue has in fact been heavily depleted by the demands of collectors. At the present time the stocks of $\frac{1}{2}$ p pieces and perhaps of other base metal coins are virtually exhausted but the position is obscured by the presence of large numbers of U.K. coins (of same shape and size) in circulation in the country. The Royal Mint have suggested a re-minting of the existing base-metal set, with the year "1978" instead of "1974" and have reported that up to 10,000 of the new 50p and 25p pieces would be bought by the FAO if they contained a suitable FAO theme and inscription. The Mint does not, however, propose a silver proof version of the new 50p and 25p - which is where the large money lies.

Clearly it is financially desirable to cull the British coins and make more use of the Falkland Islands own coinage because one cannot make profit from using the coinage of another country. Obviously there is no need to withdraw all British coins and they will certainly continue to circulate for a very long time and be acceptable (so long as the Falklands' pound is in line with the £ sterling) when brought in by tourists, including Antarctic survey teams, and other persons from the United Kingdom.

Commemorative Coins

The estimate given by the Royal Mint of the likely revenue from the projected Silver Jubilee piece was around \$125,000. It is likely that the profit on the base-metal Jubilee piece will be enhanced by the decision to make it a 50p rather than a 25p coin. The Churchill commemorative crown issued in Britain many years ago was priced at 25p (5/-) and that price corresponds to a great deal more than 50 pence in current money. It is not thought therefore that 50p will price the new coin out of the smaller collectors' market. In making their estimates of revenue the Royal Mint spoke in terms of having a sixteen-week period for the process of minting the coins and selecting the proof coins from the time of receiving the designers' moulds. Since we are trying to cash in on the end of the Jubilee coin boom it is rather important that the delivery dates envisaged will actually be kept and at the time of writing this seems likely. Some other firms have shown interest in doing numismatic issue, for example, Spink & Son Ltd, who sometimes use the Royal Mint and sometimes the Birmingham Mint, and the Crown Agents who have suggested using the Pobjoy Mint at Sutton. While it seems fair to remain with the Royal Mint, who have really pressed on with the Jubilee coin it is reasonable to be open to ideas and proposals

by other firms. Messrs Spinks for example have suggested that they could provide expert management for a gold coin issue and some proposals are awaited from this firm for consideration, without prejudice. Another firm which has shown some interest is Paramount Coins whose views are being sought by the Honourable Financial Secretary and it is hoped to obtain information regarding the experience of other countries that employ other firms.

South Georgia

It has been suggested that a commemorative coin might be issued for South Georgia which already has philatelic issues of stamps, possibly to commemorate the 25th anniversary of the Queen's Coronation in 1978. It seems possible that the Royal Mint will be doing an omnibus issue for a few countries that missed the Jubilee bandwagon and if so they could no doubt quote. The first step, however, is to obtain clearance from the Foreign and Commonwealth Office that a coin issue for South Georgia is in order. Although the Falkland Islands Government would receive little direct benefit from such an issue any profit would enhance the revenue of South Georgia and no doubt there would be some indirect benefits to this country. Later on a similar issue could be considered in respect of the British Antarctic Territory.

In connection with philately the Foreign and Commonwealth Office has stressed that the three separate territories of Falkland Islands, South Georgia and B.A.T. should be kept entirely separate and this would presumably apply also to commemorative coins, so that a new South Georgia issue ought not to be confused with an entirely separate Falklands Jubilee coin.

Tristan da Cunha, which also has a tiny population, made a Jubilee coin issue, upon which the Financial Times Coins correspondent (James MacKay) commented - "One may decry the issue of commemorative crowns in colonies like Tristan da Cunha but it cannot be denied that with a mintage measured in thousands rather than millions, these crowns are an infinitely better investment. The best prospects, of course, are provided by the silver versions, particularly those in proof condition."

At the present time the Bank of England, in conjunction with the F.C.O. and O.D.M. is doing a research exercise on the experience of Commonwealth countries with coin issues so as to be able to advise on how to maximise the revenue from this source.

Artist's Moulds for New Coins

After acceptance of the designs for a coin the artist converts the design to a 3-dimensional model or mould about 10" in diameter in the precise shape the coin will take. The design on the mould is reduced to coin size by an automatic pantographic method. The moulds are available from the Mint after the minting and would be useful mementoes for preservation within the Falklands.

PHILATELY

Philately in the Falkland Islands has a long history and Falkland stamps are respected all over the world. Stamps were first used 100 years ago and philately was already in full swing in the Falklands at least by 1916 when an advertisement appeared in The Falkland Islands Magazine of February of that year. R. and A. Hardy of the Kelper Store, Port Stanley, were advertising for used Falkland Islands stamps. There were then 8 stamps of different values in issue and the Hardys were offering 25% of the face value for any used stamps brought to them.

Philately produces revenue painlessly since stamps are sold mainly to persons overseas and there is in no way a burden upon Falkland Islanders. To reap the full harvest that philately can produce there are several things needed. The first requirement is originality of design, long-term planning and a cast-iron system to ensure that printing and issue take place promptly on the dates that are planned.

The actual revenue produced to the Falklands Government in recent years has been estimated by the Crown Agents as follows:

1974 -- 4 issues, £56,000.

1975 -- 2 issues, £31,000.

1976 -- 1 issue, £24,000.

For 1977, the current and forthcoming issues are -

Jubilee, issued February 1977 (3 stamps);

Telecoms, July 1977 (3 stamps);

Flying Boats, September 1977 (3 stamps);

Ship Definitives, November 1977 (15 stamps).

The revenue for 1977 thanks to the success of the omnibus Jubilee issue should be much higher. It has been estimated by the Crown Agents as likely to be between £50,000 and £100,000, and £60,000 had been produced by the end of May 1977 from the Jubilee issue alone.

Period of Sale for Commemorative Issues

The practice in the Falkland Islands was understood to have been that the commemorative issue were taken off sale after 3 months except for new overseas orders. When overseas orders tapered off stocks were destroyed. This practice differed from that of most countries including Britain and the normal practice is to keep the commemorative issues on sale for a full 12 months after the issue or until stocks are exhausted, whichever is earlier. This practice is now being adopted in the Falklands regarding current and future commemorative issues.

Presentation Packs

Various new ideas have been suggested by Major Spafford and also by the Crown Agents and by others. One of these is the idea of presentation packs. Some countries produce a presentation pack for each commemorative and each definitive issue. In the U.K. about 100,000 packs are sold for each issue. The idea is new to the Falklands and it might be difficult to estimate the initial supplies or packs that could be reckoned to be sold.

After consultation with the Crown Agents it was thought that a start might be made with such packs not by having separate packs for a single commemorative issue but a "1977 year pack" containing

all the commemorative issues of that year. The object of a year pack is to include all the commemorative issues of that particular year. This, incidentally, gives an opportunity for a final sale of surpluses of commemorative issues which have not been completely sold out during the year. In the case of the Falklands the situation for 1977 at one point was that there were likely to be well over 5,000 spare mint sets of the Jubilee issue and accordingly a total of 5,000 presentation packs might be prepared and printed to contain Jubilee sets and also mint specimens of the other sets which are actually issued during the year.

Booklets

A recent proposal by the Crown Agents, which has been promptly accepted, will however, "mop up" all unsold mint Jubilee stocks and involve the printing of more of them. The project is to put out 30,000 Jubilee booklets each containing 4 mint versions of the 3 Jubilee stamps and to be sold at £2 each, bringing in a net revenue to the Falklands of £50,000.

Definitive Pack

A new definitive issue would be put into a presentation pack separate from the year pack, in fact in the case of the forthcoming 15 stamp issue it would be preferable to have more than one pack. For example, Gibraltar recently put out a "low values" definitive pack, there were 8 stamps in the pack and the total value was 24p. Of course the total price of the pack has to include the printing, the cost of the cardboard mount and the cellophane cover as well as postage. Such packs are particularly useful for selling to tourists and tourist ships and of course they are a handy way of selling stamps at exhibitions, about which something will be said later.

Souvenir Sheets

Various suggestions have been made that we should have miniature or souvenir sheets of stamps. This idea is frowned upon by the study group of which Major Spafford is the spokesman. The Crown Agents are also not keen on this although many countries produce them. It appears that such sets do not sell in the USA but they do sell in Europe. The British Post Office is producing miniature or souvenir sheets in 1978 in order to provide revenue for financing the international stamp exhibition which it is Britain's turn to stage in 1980.

The Crown Agents did go as far as saying that it would probably be a good idea to have a souvenir pack covering the three territories, the Falkland Islands, South Georgia and the British Antarctic Territory, perhaps with values of stamps to the extent of about 25p for each country. That suggestion might, however, have to be modified in the light of the views of the Foreign Office who stressed the importance of drawing distinctions between the territories. The Foreign Office also stressed the importance of having non-controversial designs on the Commemorative stamp issues. Insofar as issues concerned the British Antarctic Territory and South Georgia, it was mentioned that shipping only came to those territories between October and April each year so that timings had to be fixed in connection with the shipping dates.

The position has, however, been reached that one can make firm proposals about presentation packs. Prices have been quoted by the Crown Agents for the 3 elements (other than the stamps) which make up a presentation pack as follows -

Cost per 5,000

(a) plastic wallet	£206.40	
	<u>monocolour</u>	<u>2-colour</u>
(b) printed insets	75.25	£96.25
(c) stamp mounts	275.00	
	<u>£556.65</u>	<u>£578.15</u>

i.e. the cost per pack would be between 11p and 12p.

The printed insets could preferably be done by the Government Printer who could produce already unfolded explanatory insets but would need to order a different type of thick paper or thin card for folded insets.

If two basic shapes were ordered for stock, one holding 8 stamps comfortably and the other designed for up to 6 stamps, the former could be used for low value definitives (say 1p to 8p inclusive) and the latter for medium values (9p, 10p, 20p, 25p) and for high values (50p, £1, £3). The smaller pack could also be used for commemorative issues and the larger for year packs.

Since the two sizes could be brought into use as needed with different insets and stamps, and over a period of years, there would be no danger of loss and there would be great flexibility, particularly if the printing could be done locally.

It is, therefore, proposed that orders be placed early for the two sizes of wallet sets to be used in connection with the new definitive issue. No doubt the Crown Agents will wish to retain some for use for their own customers, but the remainder can be absorbed locally initially as one of the ways of marketing the new definitives and to a smaller degree any extant commemoratives.

The writer's own brief in the matter of philately was to investigate to ensure that the best possible revenue could be produced from this source without spoiling a market for future issues. Because of the Shackleton Report's criticism of the services provided by the Crown Agents in past years a great many stamp agents had applied for the contract to deal with Falkland Islands stamps and it had been decided to continue with the Crown Agents but try to improve the general performance.

In discussions at Sutton with the Crown Agents Mr Sims mentioned that it had been agreed with His Excellency the Governor of the Falkland Islands that in future there should be four commemorative issues per annum, that the face values of the issues should vary between 70p and 90p per set and that there should be major projects whenever possible when large sales might be predicted, for example, with conservation issues in connection with the wild life of the islands.

In addition it was mentioned that the Crown Agents would be proposing an omnibus Coronation issue (25th Anniversary thereof) for 1978 involving a number of Commonwealth countries, including the Falkland Islands.

Representation at International Stamp Exhibitions

It has been suggested that it might be worthwhile for the Falklands to have a stand at a future exhibition such as the large one which is to be held in England in 1980, i.e. in 3 years' time. At present the Falklands are represented by the Crown Agents stand at all such exhibitions. Since a number of countries are covered by the Crown Agents no special preference can be given to any particular country in the sales that take place over the counter. Where a country has its own stand the Crown Agents actually welcome this and are used to working in collaboration with the members of the individual country stands. For example, by helping to man such stands when officers go off duty, and there is some reciprocation in this respect. In order to look into the ways such exhibitions are run the writer made a visit to the May/June 1977 international exhibition which was being held in Amsterdam. Next year's exhibition is going to be held in Toronto in about May or June 1978.

At the Amsterdam show there were stands not only by the Crown Agents but individually by Gibraltar, Guernsey, Jersey and the Isle of Man. Visits were made to these and the general feeling was that it was worthwhile having the stand and that with any luck the revenue taken at the stands would more than pay for the cost of renting the space and manning the stand. In addition, some very useful publicity was given to the country concerned and new "connections" made. One feature of the work done at the stand was to take money on deposit for people who wanted to keep in touch with the countries and obtain future issues. In each case the country concerned had arranged to have literature about its stamp issues, supplies of the stamps for sale and also forms of application for starting deposit accounts and for receiving information about future issues. Where the country was also represented by the Crown Agents, the Crown Agents normally sold the first day covers only and left other sales to the country stand, but there was cross-reference between the country stand and the Crown Agents stand.

In order to gain some experience of running such stands before the 1980 British exhibition it was thought that it might be useful to run a stand at one or more of the smaller exhibitions run each year by "British Philatelic" usually in October, and "Stampex" which is usually held in March.

The earliest of these smaller exhibitions at which there was any possibility of the Falklands' attending was the British Philatelic in October 1978 and the Stampex in March 1979. The Crown Agents said that they would put down the name of the Falklands provisionally on each of these in case it was decided to take a stand at either of them.

Another idea put forward was that there should be joint occupation of a stand at an international exhibition between the Falklands, South Georgia and the British Antarctic Territory and another idea, explored with the Foreign Office, was that in fact it could be a six country stand to include Tristan da Cunha, Ascension Island and St. Helena. One advantage of this would be that the expenses could be shared six-ways so that the profit could be maximised and the risk to any particular country of loss would be accordingly very small. Politically the F.C.O. preferred a six-country stand to a three-country stand. Of course the six countries concerned would all be in the South Atlantic region.

If representation is to be had at these various exhibitions it is very important that there should be ample supplies of stamps, presentation packs, first day covers and so on at the time of the exhibition. The optimum effect is obtained if a particular new issue is timed to be made at the date of the exhibition itself. One essential piece of equipment to provide at a stand at an exhibition is a rubber date stamp with a movable date which would be used to cancel stamps placed on envelopes which are commonly purchased on the exhibition days. A proportion of customers like to have their stamps instantly cancelled at the country's own stand. As regards the manning of the stand, the Crown Agents advised that someone from the Falkland Islands should, if possible, be present during the show to talk to people who come to visit the stand.

Major Spafford who is keen himself on the idea of representation has said that his study group would probably provide a number of volunteers who would give themselves and their services free at the stands which would be a great saving in costs for running the stand. At the Amphilex show in Amsterdam the Crown Agents were having to pay hotel expenses of £42 per night for the staff that they sent over to man their stand. All the points made above, that is to say, the preparation of presentation packs and representation at exhibitions require very early decisions and very prompt attention to the work that has to be done in preparation.

The possibility of 3-country or 6-country representation has already been mentioned to H.E. the Governor, and is now being followed up by the Hon. Chief Secretary.

On balance it appears that it would be a good long-term investment to do so and it is accordingly recommended that -

- (a) a 6-country stand should be arranged if possible jointly with other South Atlantic countries, on a cost-sharing basis, at the earliest possible small exhibition (British Philatelic or Stampex), and that this should be followed up by participation at other Exhibitions (if all goes well) possibly including larger Exhibitions, and certainly the London International due in 3 years' time in 1980.
- (b) that issues should be geared and timed so that a new one is ready for sale at any Exhibition in which the Falklands participates.

Printing Delays

Past experience indicates that, partly because surface mail arrives at 3-monthly and air-mail at weekly intervals, stamp issues do not always take place on the dates planned for them.

It would seem to make sense to "order" an issue a long way in advance so as, for example, to have all the stamps, F.D.C. envelopes etc, delivered to the Falklands and to the Crown Agents several months ahead of the issue date.

A difficulty about this might be that it would not be possible to forecast a long way ahead what the postage rates would be at a future date. This is important to the extent that it is deemed desirable to put out issues based on prevailing postal charges.

This does not seem insuperable since the Falklands follows the U.K. in making changes which in any event are prescribed within limits by the UPU and in effect by charges for air freight regarding overseas mail. For example, our present overseas rate is 8p (aerogrammes) and 11p (letters) against 10½p and 13p apparently in the U.K. We shall certainly be forced by simple economics to increase our own rates to those levels and it might be reasonable to project a future issue on the basis of a 10p/13p scale with some confidence. One can also reasonably assume that U.K. (and world) postal rates will continue to rise from time to time.

Designs by Local Artists

The Falklands are fortunate in having several first-rate artists resident in the country, specialising respectively in wild life, ships and maritime themes, portraits, and landscapes. The initiative has already been taken to employ their talents for designing stamps (this could possibly be extended to the initial art-work for coins and currency notes) and it should be ensured that as far as possible local artists should do, and be paid for, not only the preliminary but also the final designs. In practice this should speed up the inception-to-design stage and also help to enable issues to be planned and completed well in advance.

Using local talent to the full is, of course, an important factor in diversifying the economy and in attracting and retaining people who will be useful members of society. Government has a minor fiscal interest in having as much work done locally as possible. A foreign artist makes no contribution to tax revenue, but a local artist, if he can be kept busy, will no doubt render a little unto Caesar as well as to the gods who inspire mortals to artistic achievements.

Philatelic Bureau

The philatelic bureau is now run by a full-time officer plus another officer who handles philatelic work for South Georgia and the British Antarctic Territory. In addition, by a most sensible arrangement, the Post Office counter staff render assistance at times when there is more philatelic than counter work to do.

The work of the bureau is building up, and the spreading of the work on new issues will no doubt be facilitated if, as suggested, printed stamps and a supply of F.D.C. envelopes can be made available well in advance of the issue date.

First Day Covers

At present first day covers are sometimes prepared and the stamps affixed thereto by the Crown Agents, the complete covers being sent to the Falklands for cancellation of the stamps. If issues can be produced earlier, a greater proportion of the F.D.C.'s can be taken through all stages here, again producing a little more (diversified) income for the Colony instead of having to employ non-residents to do the work.

Mailing Lists and Deposit Accounts

Subsequent to the writing of the above proposals the writer was approached by the philatelic officer Mrs Betty Biggs who suggested her bureau might institute a mailing list, apart from merely replying to letters received. Names put on the list initially

would be those with whom business had formerly been done, the object being to acquaint them with forthcoming issues etc. This is normal practice in other philatelic bureaux and the writer was able to produce sample literature from the United Kingdom and some smaller countries designed to inform the customers of issues and invite them to open deposit accounts.

At present there are over 200 ("unsolicited") deposit accounts in which there is approximately £1,200 on deposit. These are small figures but capable of expansion and significant in ensuring future business for Falklands stamp issues. It is not usual to allow interest on such deposit accounts.

To expand such business only the cost of postage and stationery is at risk, discretion has to be used in cutting off mail services when there is no response to several successive missives and where there is no deposit account.

Although no meeting of the Stamp Committee took place during the writer's visit he was able to discuss philatelic matters with the Honourable Chief Secretary, the Deputy Chief Secretary (in London), and the Postmaster. It seems that revenue prospects for the immediate future are reasonably good.

NOTAPHILY

In the Falklands revenue from philately and numismatics, and from the trading profit of the Post Office and of the Savings Bank are becoming increasingly important in terms of revenue and is generally agreed that every effort should be made to maximise the profits in these fields. There is another possible revenue source, however, which has so far been overlooked.

Over a lengthy period it has been customary for the Treasury to send currency notes to collectors overseas who request them, selling the notes at face value. In some cases the notes may have had a considerably greater value than the mere face value where they have been wanted by dealers or notaphilists. The writer has been looking into this subject with the idea of seeing whether some extra revenue could be obtained.

It appears that the Falkland Islands 50p note is unique in the Commonwealth since the abolition of the ten shilling note in Britain and it seems worthwhile to continue this note in issue for the time being alongside the 50p Jubilee coin and the forthcoming 50p definitive coin. There are precedents for this duality: the U.S.A. has a so called silver dollar coin circulating alongside the one dollar note and there are European examples (e.g. a Dutch 5 guilder coin and note both circulate), and the bank of England has confirmed that there is no objection to having both a coin and a note of the same value.

The whole matter is being thoroughly investigated but an interim proposal is made that when the existing notes come near to the end of their stocks the last few hundreds of them might be put into plastic wallets containing an explanatory pamphlet describing the history of note and coin issues in the Falklands and sold for a value above the actual face value.

If a new issue were to be put out the same could be done with some of the first notes issued in that series. An "excuse" for having a new issue is readily forthcoming apart from the fact that the existing notes will eventually run out of stock altogether.

The present size of our notes (the same for 50p, £1, £5 and £10) has been criticised as being too large for the ordinary wallet and therefore one might think in terms of having the new issue roughly on the same size as, say, the American dollar. Alternatively one might be able to suggest that a commemorative issue be made with a dual purpose of some form of commemoration but also as a circulating issue which could be tested alongside the current issue to see which people prefer in practice for putting into wallets and so on. To make such a trial issue would probably be unique in notaphilic circles but it would be a legitimate test to make and might be a profitable one.* The writer has also investigated the possibility of a commemorative note issue. It appears that fairly recently such an issue has been prepared in Jamaica where the Central Bank is to issue what is described as "the world's first limited edition set of legal tender collection of bank notes with matching serial numbers". The notes are identical to the ordinary Jamaican notes in circulation except that each set of four bears the same (*Economists might be interested in the practical demonstration of Gresham's Law to see which notes drove the others out of circulation!)

number printed in red instead of black and they are also dated separately. Each set has a face value of 18 Jamaican dollars the equivalent to 19.8 U.S. dollars and is being sold at 29.5 U.S. dollars. This issue is to be made by Paramount.

The trouble (from a revenue aspect) with note issues which are purchased by collectors is that although there is obviously a profit to the Government issuing them in that the notes are never likely to be presented for payment a reserve must nevertheless be made in perpetuity of the whole face value of the notes.

Notes themselves have no intrinsic value, as in the case of a silver commemorative coin, but the possibility is being investigated as to whether some kind of payment of insurance could be taken out, or an arrangement made with an issuing firm to cover the unlikely circumstances of notes being sent back for cashing. Certain blocks of notes such as the end of an old issue or the beginning of a new issue could be identified by the consecutive serial numbers so that there would be no problem of identifying the notes should they be presented for cashing. This would mean that reserves otherwise kept invested against their possible redemption could be used as revenue by the issuing Government.

Further information will be obtained as to the marketability of currency and meantime it is further recommended that any "old" notes in good condition which come back to the Treasury should be withdrawn from circulation and retained until it is seen whether they could be sold for more than face value to notaphilists.

The following figures for currency notes in circulation and awaiting issue as at 26 August 1977 were kindly provided by Mr M. Luxton, Assistant Secretary, Treasury.

Currency notes have a much shorter life in circulation than coins and routine destruction of worn and damaged notes is presently at the rate of over 27,000 per annum.

TABLE VI

Notes in circulation at 26 August 1977

10/-	Series	C	4,187
50p	Series	D	15,179
£1	Series	C	705
£1	Series	D	1,452
£1	Series	E	23,955
£5	Series	C	7,661
£10	Series	A	13,420

Notes in stock : Unissued at 26 August 1977

50p	35,000
£1	20,000
£5	64,600
£10	36,000

Savings Bank as a Revenue Source

The Savings Bank in the Falklands is very efficiently run and has produced large surpluses in some years which have been taken into general revenue in accordance with section 13(2) of the Savings Bank Ordinance, Cap.61.

The assets are invested conservatively by the Crown Agents and are re-valued annually to determine what reserve is necessary against a possible fall in value of investments (British gilts). The reserve at 30th June, 1977 was £363,545 against depositors balances of £1,685,303 and a market value of £1,976,706 for the bank's gilt-edged investments.

The "profit" disclosed by the accounts is misleadingly large because no adjustment is made for income tax liability of the depositors nor for the unpaid services of the Board of Directors. Strictly a debit should be made for this item with a corresponding credit to income tax revenue. At any rate the net profit provides very welcome "painless" revenue.

The fact that the Bank operates at a good profit is partly because of the "turn" on interest rates and partly because of the extremely high productivity of the staff. For the year to 30th June 1977, for example, all the work of computing interest on accounts, revaluing investments and so on was done within 27 days of the year-end. Taking the profit to revenue as authorised by statute law which was adopted from an old Colonial Office model, enables Government to avoid levying a similar sum in additional taxation.

It would be possible to make greater reserves than are statutorily required but Government itself has reserves, so much so, that the F.C.O. recently advised that the Falkland Islands Government was now in a better position to run a Budget deficit (the Budget, however, is in balance) than at any time in the last 10 years.

The Bank has been criticised by a series of advisers (Armstrong, Combem-Waller, Shackleton) on the grounds that ..

- (a) interest rates are too low;
- (b) interest rates should be such as to pass on interest received by the Bank to its depositors;
- (c) the surplus should not be taken into revenue; and
- (d) the tax free element is regressive.

Somewhat in contrast, the Falklands have been advised to invite in a commercial bank and hand over the Savings Bank thereto.

Local conditions are not quite the same as in other parts of the world and it may be worth setting down some comments on the above points for the sake of clarification.

(a) Interest Rates tend to be a product of the environment. In the Falklands, the Government has been lending money at $2\frac{1}{2}\%$ and 7% in recent years, a commercial company has been lending at rates from $6\frac{1}{2}\%$ to 9% and many farm employees have accounts (of accumulated earnings) with their employers which earn no interest at all.

A commercial bank (unless under some statutory constraint) will borrow money (accept deposits) at the lowest possible rate of interest and lend out at the highest rate the traffic will bear. The commercial banks in Britain have just reported record profits and nationalised industries tend to be criticised for not making profits. The Falklands Savings Bank is a nationalised industry which does make profits.

The rate of interest on savings accounts has been increased from $2\frac{1}{2}\%$ to $3\frac{1}{2}\%$, and thence to 5% , all tax-free, and all balances are repayable on demand, i.e. 5% is allowed on money at call and this rate is now probably too high (U.K. Base rate 7% at time of writing)

- (b) The proposal, more or less for a floating interest rate to

depositors reflecting the going interest rates on investments, which would eliminate the Bank's profits is more appropriate to a friendly society or building society. The Savings Bank's interest rate has varied, as noted above, but it is not usual for this type of Bank to have too great a flexibility of rates, or the investor tends to lose track. Part of the incentive to invest provided by a reasonable interest rate is lost if the investor cannot rely on its remaining in force for more than a few months.

(c) It has been mentioned above that Government is statutorily authorised to take surpluses into revenue, and bound to charge deficiencies to revenue. The Treasury in the Falklands enters into various "commercial" monetary transactions and also runs the Savings Bank as a commercial entity.

(d) the "tax-free" element is regarded as worth keeping since it is found to be attractive to small savers. There are precedents overseas, e.g. municipal bond issues in the U.S.A., Savings Certificates and Indexed Bonds in Britain, as well as "tax-compounded" building societies in Britain (which effectively use the tax exemption of smaller depositors to "subsidise" depositors liable wholly at the standard rate) which have long used the "tax-free" (or "tax-paid") gimmick successfully to attract depositors.

Commercial Bank

Talks were held in London with the Bank of England and Barclays International. (Lloyds International - which controls BOLSA - were not even interested in talking) about setting up a branch commercial bank here, taking over the Savings Bank. It was stated that banks would not regard this as a commercial operation and would require a subsidy - i.e. the present revenue contribution of the Savings Bank would be replaced by a minus figure - for an indefinite period of years from Government. (An alternative scheme, a management contract for bank officials to come to Stanley to train local staff in banking procedures, would involve paying the salaries, passages and expenses of two officials, plus back-up expertise, for a few years, providing two local officers as trainees.)

Because of all the work at present satisfactorily done in the banking sphere (see section C under Banking) by Government and the F.I.C., there does not seem to be enough scope for the profitable entry of a commercial bank, nor would Government wish lightly to give up the revenue it already obtains.

TOURISM

The Shackleton Report outlined the possibilities of increasing tourism and the difficulties inherent in it and envisaged that it might be possible to look to a total of 5,000 visitors per annum. These notes are mainly concerned with existing tourism and the problem of maximising the "take" from, as well as the goodwill of, existing tourists in the shape mainly of visitors coming ashore for a day from tourist ships.

It is to be expected that for shopping facilities designed in the ordinary way to accommodate a population of 900 plus occasional visits by persons from camp can hardly be expected to cope easily with an influx of anything up to 1,500 people from a cruise ship in a single day. In fact there appear to be tremendous bottlenecks which are caused by various reasons, e.g.

- a) the need to take some account of the security problem involved in visitors swarming over shops where there are not enough attendants to take care of them, which generally means they are allowed in shops in batches of a few at a time, partly because of (b) and (c), with lengthy queues forming outside.
- b) the language problem because there are probably not enough speakers of foreign languages, such as Spanish and Portuguese, present on the staffs of the existing Stanley shops.
- c) facilities for changing money. At present tourists come into shops with various types of money and attempts have to be made to change the money as well as negotiate the purchase transactions that they want to make, which slows trade down.

Cambio Facilities

It has been suggested that the Treasury provide a cambio or money exchange at a site as near as possible to the jetty, possibly in an old B.A.S. building nearby. Tourists would make their way first to that establishment so that when they reached the shops they would at least be spending Falkland Islands money on buying goods priced at Falkland Islands currency, so removing one of the bottlenecks in the operation. At present tourists meet the shops before they reach the Treasury and it is in the Treasury that all the money changing is done so that if a Cambio could be set up nearer the jetty this would save a lot of time and encourage tourists to spend more. Since there are relatively few "tourist ship-days" in the course of a year it might be possible to have a small team of two or three persons from the Treasury allocated to Cambio duty for the day of any ship's arrival. If the ship arrived on Saturday or Sunday it would be even more important to arrange this facility, since for the benefit of the commercial community and thus also of the Government and the people at large, every possible facility should be given to visitors to spend all the money that they are inclined to spend.

Supplies of Tourist Goods

The shopkeepers who actually cater for the tourist trade do claim that they lay in stocks of the goods that tourists however, is a matter for the traders and one in which Government can hardly do very much to help except as regards making available exchange facilities so that the full impact of tourist spending is felt by the shops concerned. If this facility is secured it might be that the shops would have to revise their ideas about what quantities of goods should be laid in to meet tourist demands but again this cannot be determined except from experience.

There have been so many complaints by the public at large that the goods they wanted to buy have disappeared from the shelves having been bought by tourists, that several shops now remove from the shelves beforehand various goods which they know that the local people want to buy and which would otherwise be denied to them by tourists "depredations". Some shops are not really designed for tourist trade at all, they are small general stores with all manner of items on sale, only a few of which would be likely to have tourist appeal.

Indoor Market

The suggestion has been made by Mr John Smith, former Legislative Councillor, that it might be desirable on days of ships' visits to convert the Gymnasium into an indoor market for the day and set up stalls in it which could be hired by shops who are interested in the tourist trade and to which they could bring from their shop all the items that they think might be of interest to the tourists. They would presumably close down their shops for ordinary business on those days. Since some of the days ships visit may be Saturdays and Sundays shops would not then lose any local trade but might receive the opportunity to dispose of stocks which otherwise would move quite slowly.

"Fun Fair"

Other items in the Gymnasium, if this proposal was adopted, might be the holding of raffles, setting up the roulette table which is used occasionally by clubs to raise funds, and possibly organising dart games (run by local dart experts) so that tourists could be introduced to one of the national past-times of the Falkland Islands. In each case it would be a fairly straightforward matter to organise prizes for, in the case of darts, certain scores, and there would no doubt be willing helpers who are good at playing darts to show tourists how to play the game.

As regards to the roulette wheel, there are enough people available to run a game and when the Falklands gets its new 50p piece these might be used as the chips in the same way as the gambling establishments in Las Vegas and other parts of the U.S.A. use their silver dollars (now cupro-nickel) for "chips" on the games there. To the extent that tourists took away with them some of their remaining "chips" as rather hand-some souvenirs, this would of course help in the sales of the commemorative coins which will be coming out later in the year.

It is hoped that not many months will pass before we have supplies of new stamp issues and the new coin issue put up into

suitable presentation packs which should be of some interest to philatelists and numismatists or even simple collectors among the tourists.

Excursions

It is understood that the main excursions offered to tourists are trips around Port Stanley, and visits to Yorke Bay for penguin viewing.

Apparently some tourists complain of being overcharged for such trips. It is a matter merely for the Tourist Board to agree reasonable prices with the operators and ensure that the prices are prominently displayed bi-lingually on boards at the exit from the jetty into Port Stanley.

In general the provision of these services alone would perhaps give the tourists a more interesting visit than they have had in the past, that is

- a) money-changing so they can shop more easily; and
- b) providing a market/fair under sheltered conditions (whatever the state of the weather); and
- c) fixing the prices of excursions.

If tourists are catered for in an efficient and friendly way they will tend to pass the word on to their friends or themselves come again on future visits and this really is the essence of a tourist campaign.

There is of course no lack at all of goodwill and hospitality towards visitors but for Falkland Islanders to cope with the out-pourings from a large cruise vessel is a different kind of operation and the resources of the town and country will naturally be stretched in any event on these occasions. It would probably be worthwhile for various people (especially those who speak Spanish or Portuguese), who are normally at work on the days that cruise vessels come, to be allowed off duty for the day to help smooth the path of the visitors. This should be a good investment by their employers whether they happen to be in the private sector or in the Government sector.

Artefacts

At present the supply of suitable artefacts for the tourists to purchase and take away is somewhat limited. The local market is very small and if local handiwork could be displayed at the Indoor Market, sales might boom giving the management an opportunity to encourage much greater production from the makers once the period between manufacture and sale can be materially reduced. It may be found that demand would help to create supply. Government's part would be in ensuring that a stall was reserved for handicrafts, perhaps at zero rent, since this is another minor example of how greater production and wealth can be created in the country itself.

Wildlife

It is understood that the Conservation laws in the Falkland Islands have now made Port Stanley a conservation area for the whole of the year. The result is that one finds species of bird life wandering around unafraid within a few yards of passers-by and this in itself is a great attraction for the town and obviously the correct policy. In other parts of the country there are strict rules about during what periods the ducks and geese may be shot and whether and to what extent eggs may be taken from birds.

Some birds such as the king penguin are totally protected from shooting or egg-collecting. Where egg-collecting is allowed it is mainly for the purposes of food. It is done in the case of species where if the first egg is taken from the nest the birds will lay another one to replace it.

Zoo Trade

It is understood that there used to be a certain amount of "trade" in persons collecting Falklands' wild life for export to overseas zoos but that this trade has ceased since a "tax" was put upon such exports. The charges per head are understood to be -

elephant seal	£200	king penguin	£50
fur seal	£ 70	other penguins	£25
other seals	£ 50	kelp geese	£15
		other geese	£10

Perhaps it would be wiser to abolish fixed charges altogether and allow charges to be fixed ad hoc at the time of granting a licence. For example it is possible that no licence should be granted for taking a king penguin at any price (they are, however, understood to be available in South Georgia), on the other hand, since bounties are given for killing Upland Geese, it seems hardly appropriate to charge £10 a head for taking them to a zoo.

Presumably exhibits of Falkland Islands wildlife in overseas zoos would stimulate interest (by scientists and naturalists) in this country and there might be some "spin-off" to our benefit. If policy is changed and given due publicity, this in itself could make the columns of certain "carriage trade" glossy magazines.

There appear to be two theories about the upland goose. At one extreme the view is that it should be eradicated from all grazing areas because it competes with the sheep for grazing and bounties are still paid in some areas for killing such geese. At the other extreme there is the view that the bird should be preserved. Further studies on this species are shortly to be made and when the report is ready it will indicate whether in fact it will be permissible or desirable to allow limited shooting, preferably for the pot, of this particular species and even perhaps possibility of permitting shooting in certain areas for tourists and visitors interested in "hunting, shooting and fish-ing", so as to attract this type of tourist as a means of killing two birds with one stone.

Guides and Literature

Since one of the main attractions for visitors interested in wildlife who have a day in Port Stanley is the visit to the Yorke Bay penguin rookeries. It seems desirable to organise a supply of guides who know something about the area and who could perhaps control the crowds of visitors so that the first batch does not scare all the birds back into the water before other visitors arrive. If a limited panel of ornithologists could be prepared and if it could be ensured that one or more of them could be on duty on tourist days this would no doubt help to make things more pleasurable for everyone.

It seems desirable also to prepare printed pamphlets about the particular species of wildlife such as the gentoo penguins, logger ducks and other birds likely to be found in the nature area visited by tourists so that these can be distributed by the organised tours as part of the amenities of the trip. The existence of these pamphlets would also be of some use to the tour operators themselves who would speedily learn the subject about which they were to inform the tourists and to the extent that these pamphlets found their way to other countries (one should think in terms of an English, Spanish and Portuguese version) they might in themselves attract a few extra visitors to the country. The preparation of such informative pamphlets could be commissioned by the Tourist Board. Since they would not need up-dating, reasonably large quantities could be run off and sold to shops etc. for re-sale, apart from maintaining a supply for tour operators.

Licensing and Insuring of Vehicles

Vehicles which are used to carry tourists should preferably have licences for the purpose even if no charge is made for that particular type of licence. The police already ensure that vehicles are suitable for the purpose for which they are to be used. It would also be wise for the vehicles to be properly insured to carry this particular type of passenger and if such insurance does not already exist it should be a simple matter to organise its provision through existing insurance companies.

Lottery

It has been suggested elsewhere that a minor attraction on "tourist-ship-days" might be to arrange for one of the local lotteries to have a public draw in the afternoon and the final period for ticket sales in the morning of a visit, so as to give a boost to the sales and profit, at the risk of some of the prizes going overseas.

Publicity

Articles about the Falklands and the wildlife appear from time to time in glossy magazines in various parts of the world and are an excellent form of free publicity since they probably encourage the best kind of tourism (by people who appreciate natural beauty and wildlife), but in small "packets" which can most easily be assimilated.

Possibly Government could stimulate such writing (usually done by local artists and naturalists) in some way, or even put out "Press Releases" from time to time, e.g., regarding any changes in conservation (or other) policies especially those based on scientific research and recommendations.

Small Tourist Ship

A possible development mentioned by Dr Colin Phipps, M.P., is that a Mr Fitter, presently based on Ecuador and operating in the Galapagos and elsewhere is thinking of bringing to the Falklands a ship with accommodation for about 16 persons whom he would take on wildlife tours of the islands. There is obvious scope for such a vessel if it can be kept busy. The main difficulty would be whether it could be taken to other parts of the world during the off-season or whether some kind of subsidy would be required for it to remain in the islands. No doubt more details of this venture will be forthcoming later.

Fiscal Yield from Tourists

The Shackleton Report at page 64 mentions that during the early days of tourism one should not look for any fiscal yield. The writer does not go all the way with this suggestion. In other countries it has been found that if one uses too cautious an approach the time is never right for any kind of taxation to be imposed on tourists or the services and goods provided for them. In fact it has already been decided to put a passenger service tax on visitors leaving the Falklands by way of the new airport, and this kind of levy is made in many countries of the world to help maintain the airport installation. In addition it is not uncommon for tourists to pay unwittingly some form of taxation on the goods they buy and nothing need be done to change this situation. While nothing further need probably be contemplated at present it is as well not to be too inhibited about getting some fiscal revenue from something merely because it is on a small scale. In a place like the Falkland Islands a great many things are on, and likely to remain on, a small scale compared with similar institutions elsewhere in the world.

A full revision of port dues is also under way, and these could take into account possible expenditure in making cambio & toilet facilities available at the jetty end of town, possibly using or adapting old B.A.S. facilities.

LOTTERY

One of the possible ways of raising money painlessly is the running of a lottery, particularly where a good proportion of the tickets can be sold overseas. Most people are familiar with the example of Malta which has a worldwide lottery producing quite large profits every year and the general idea is "if Malta can do it why can't we?". The position in the Falkland Islands at present is that there are eight organisations that run lotteries for their own funds on a fairly regular basis. One of the top ones has recently put out a lottery where there will be five top prizes of \$100 each. Apparently there are about 400 regular buyers of lottery tickets in the population of 1850.

"International" Lottery

If one is thinking in terms of establishing an international lottery there are two approaches,

- a) the gradual one of building up the lotteries one already has, and
- b) to start a brand new lottery which might mean the demise of some of the existing lotteries.

The intermediate course would be for the existing lottery organisations to start by getting together once a year and have a "super lottery" with maximum prizes and all the organisations selling the tickets for it, the share to which each organisation would be entitled of the total profits could be proportionate to the number of tickets sold by its members. The next stage would be perhaps to graduate to a single very large lottery per year. If all the contributions, or if all the contributions at a particular season of the year, to the existing lotteries could be put into one large one obviously the prizes would be more attractive but much fewer in number than if the eight lotteries were run separately. Nevertheless this is the way one should proceed if one is serious about "international" lotteries.

Tourist Contribution to Local Lottery

One minor but perhaps important gimmick would be to arrange for a drawing of one of the larger existing lotteries on the day of the visit of one of the large cruise ships but it would have to be done in the afternoon giving the tourists an opportunity on alighting from the ship in the morning, to buy tickets for a lottery which is going to be drawn in full public view later in the day. (See "Indoor Market" notes under TOURISM).

New Lottery

With a new lottery one tends to have a "chicken and egg" situation where the lottery will not take off in a big way unless the prizes offered are pretty high and one cannot afford to offer high prizes unless one can be reasonably sure that tickets will all be sold. If not enough tickets are sold to cover the prizes then there will be an inevitable loss. Many big plans to run lotteries for public revenue have fallen at this first hurdle and have never got beyond stage one.

Malta Lottery

The Malta lottery or "sweep" has been running for a very long time and had its early hey-day when the British navy had a very large presence in the Mediterranean and there were numerous army, navy and air force personnel and their families stationed on the island.

Although the lottery is a governmental enterprise the civil servants running it are able to conduct a very vigorous and ingenious selling campaign, continually seeking new customers, while retaining old connections going back for decades. The first prize for each of the quarterly draws is £35,000 and there are supplementary prizes as well as weekly LOTTO (Bingo) competitions mainly of interest to the local population.

"Export" of Top Prizes

Another minor point is that in Malta most of the big prizes, each time there is a lottery, go to overseas punters. This has been accepted without any kind of protest from the Maltese as a fact of life over a long period. If one is using a lottery as an "invisible export" device then this unpalatable fact has to be swallowed and accepted because the biggest proportion of prizes go where the biggest proportion of money is contributed.

Other Overseas Examples

Apart from comparisons with Malta one is up against the Football Pools in Britain which produce tremendous prizes amounting to a million pounds on odd occasions. Even the British premium bonds produce prize money whereby the first prizes may amount regularly to £50,000, £75,000 and £100,000. In Latin America lotteries in some countries also produce prize money well beyond the scope of anything possible in the Falkland Islands. In Brazil and also in Chile there are free state lotteries based on purchases in shops. All the consumer has to do is bring in his receipts from various shops and these are accepted by the State Treasury in exchange for free lottery tickets. The Treasury is supposed then to follow up the entries on the receipts produced with the shops' records to ensure that they are properly accounting for their sales tax.

The exercise is an expensive and useless one because traders who are asked for receipts by the customers know very well that they must enter those transactions in their records for sales tax and income tax purposes. There are, however, enough transactions where the customer does not want a receipt to enable the shop-keeper to evade tax in quite a big way. Nevertheless the lotteries still exist.

Anti-Lottery Laws

A number of countries try to exclude from their mails lottery tickets offered to their inhabitants by other countries. An example is the United Kingdom where lotteries are illegal and where, for example, Irish hospital sweepstake tickets have long been banned from entry into the country; Malta lottery tickets are also forbidden. Some traffic in these nevertheless takes place through agents who manage to bring over tickets in bulk as well as by individual letters and parcels coming through the mail.

On the other hand Malta bans football pool coupons from the United Kingdom and great efforts are made to find these in the mail and extract them.

Consolidation

Although the many small lotteries in the Falklands could possibly be consolidated and turned into a few large ones it is not thought that this would be very acceptable because many of the tickets are quite lowly priced and people get a certain amount of fun out of hearing their names or ticket numbers called over the radio. As there are such announcements almost every week one has to take account of the social interest involved in these minor lotteries in a country where public entertainment is not so highly developed as elsewhere. Any lottery to succeed on the international scale must, however, have a sound home base. For the reasons given it appears that there is little prospect of getting the various organisations in the Falklands to come together and make up a few large lotteries instead of many smaller ones and without this sort of "home base" one could not really envisage getting very far overseas.

The alternative of a brand new lottery on a large scale say, by Government, which would hit the organisations traditionally raising funds for their normal activities by lotteries would obviously not be very popular. Accordingly one is left with the conclusion that there is really very little prospect of starting an international lottery in the Falklands such as would produce revenue of a worthwhile amount to the Government.

At present all lotteries appear to be free of tax and are run by private organisations. They perform a useful function in raising funds for socially beneficial purposes and it is considered that the best policy would be to leave things exactly as they are.

Mail Order Lottery

A small postscript might be written to the various lottery possibilities. In a recent issue of Time magazine published in the U.S., a full page advertisement plus a tear-out card of application for tickets was inserted by the "Nordwestdeutsche Klassenlotterie" for a lottery based on Herford, West Germany, and done on a mail-order basis. The tickets were 600 marks for a whole one, 300 for a half and 150 marks for a quarter-ticket.

To obtain a list of the winners it was necessary for overseas punters to send a further 15 marks and there was also a bank charge for cashing international cheques, of 6 marks. The imposing list of prizes included some of just over a million marks each with strings of smaller prizes.

It is not known whether this lottery has been running for some time or whether it is a new venture but it is obviously a classic case of someone gambling on getting enough subscriptions to cover expenses and the prize money offered, thus making a profit out of the venture. How many punters one can find who are willing to buy tickets at 600 Deutsche Marks each is anyone's guess but clearly an advertisement in an international magazine which has a world circulation is another way of starting a lottery from "scratch".

Since this was largely an "offshore" lottery, the West German Government would presumably be mainly interested in collecting income tax on the entrepreneur's profits. A "gamble" of this kind, however, is one more appropriately to be undertaken by a private concern than by a Government.

TAX HAVEN

The term "tax haven" means different things to different people. Many countries offer a "haven" or "shelter" from tax in some respect. For example, in Britain, interest on money deposited by non-residents is not taxed at source, and in fact to a great extent not taxed at all in practice, so that Britain is a tax haven in that respect. Other developed countries also (e.g. Holland, Australia) not usually regarded as tax havens have features in their fiscal systems which give scope for tax avoidance.

Various possibilities for the Falklands were explored by the writer with professional tax haven advisers in the U.S., while en route for Port Stanley.

Flag of Convenience

A good deal of money is made by Liberia and Panama, and more recently by Cyprus and Singapore, from shipping registration fees. Usually registration or tonnage fees are charged, but the profits from the vessels are exempt from income tax, and the ship-owners are not subject to restrictive trade union practices which make it expensive to man and run ships.

A recent example was that of a British shipping company which was having difficulty in running its passenger ships profitably, but considered it could do so if it retained British crew men for deck and engine-room duties but used Asian crew for cabin and table stewards. The Union could not agree so that the shipping company sold off its passenger ships altogether.

The biggest customers have included U.S. shipping interests and Liberia maintains a "branch office" in New York. Some ship-owners are looking for possible alternatives to Liberia and Panama but as far as U.S. interests are concerned (and indeed for owners generally) certain conditions are essential -

- (a) the "flag" of the haven country must be instantly transferable to the flag of the country of origin of the shipping company in time of international crisis or war (this applies particularly to U.S. shipping interests, which receive huge government subsidies, on this condition, even when registered in tax havens);
- (b) since ship-owners commonly use borrowed money to finance the huge cost of new ships there must be laws in the tax haven authorising ship mortgages which are instantly enforceable in the country's courts in the event of default; and
- (c) a law exempting shipping profits from income tax.

There may not be so much new business to obtain these days. For example, the Burmah Oil Corporation is now ordering giant L.N.G.'s (liquid natural gas carriers) at \$100,000,000 each but these are to be registered under the U.S. flag because of enormous subsidies by the U.S. Government. Although crews' wages etc. will be much higher than under other flag regimes,

such wages are a comparatively trivial item of expense in running these giant craft. Moreover, because of automation, crews are comparatively small, perhaps no more than 23 - 25.

In addition U.S. registered vessels operating entirely overseas do not need to employ U.S. crews, e.g. on the Tokyo - Indonesia run, so an important reason for using tax havens is absent.

The F.C.O. has ruled that the Falklands should not engage in any tax haven activity for which laws do not already exist in the country. Accordingly it does not seem that there is any prospect of generating flag of convenience revenue for the Falkland Islands in the early future.

Offshore Companies

It is possible in many countries to register a company under the local company law and if one does not use the company to perform any business operations in the country it would not ordinarily come within the scope of the local income tax legislation so that there will be no tax liability on the company unless perhaps it has some local investments or money on deposit at a bank. To this extent almost all countries have "off-shore" company facilities.

Some countries deliberately set out to obtain this kind of business, in other cases it sometimes happens before they realise what is happening. Various professionals in the tax haven business spend time exploring small countries to see if their laws are suitable for registration of companies (particularly those purporting to be banks, trusts etc.) and one has to be vigilant that no nefarious schemes are set up which would give the country a bad name. In recent years a number of offshore companies have been registered in the Falklands and half a dozen of these were so-called "banks". Legislation was quickly passed to deal with the "bank" problem which could have given the country a bad name since not all the alleged banks registered in obscure parts of the world conduct their business in a proper and honest manner.

The cost of registering a company in the Falklands has also been increased from £30 to £250 fairly recently and this tends to discourage mere carpet-baggers. Of all types of tax haven business, however, the registration of offshore private companies which have nothing to do with banking or trusts or financial work but usually are personal or family companies, has least dangers for the country concerned.

Large numbers of such companies are registered annually in places such as Bermuda, Panama, Bahamas, Jersey, Guernsey, Isle of Man, Gibraltar and so on. The object of registering such companies is not necessarily merely to avoid tax, sometimes the person doing the registering wants to put some of his assets out of reach of relations or others who might otherwise be able to get their hands upon it. Sometimes people register companies for possible future use but do not in fact use them but keep the registration alive for a period of years during which some useful revenue accrues to the state in which the registration has been made. Some persons living in places subject to coups and civil unrest like to put away "bolt" money in case they have to leave their native country in a hurry.

At present it is open to any person overseas to register a company in the Falklands, pay the £250 registration fee, make annual returns and so on, and the £250 is the limit of any revenue that could accrue to Government. In most countries with off-shore company facilities there is an initial fee of something like £200 or £250 but in addition an annual fee which may be more or less the same amount. The annual fee would be charged where the company is not doing business in the country but is a completely offshore operation. It would make sense to have some such provision in our own company law in the Falklands.

Another provision which it would be useful to have would be a clause enabling an overseas company to transfer to the Falklands (on payment of the same fee as for a brand new company) - still on an "offshore" footing - without incurring the extra expense of forming a brand new company. Similarly, it would be sensible to allow an existing "offshore" company to transfer residence from the Falklands, if it wished to, because, on that basis it would be more likely that companies having doubts about the Falklands' future would come here if it was clear that they could easily remove themselves. Offshore companies have, in any event, only a tenuous connection with their brass-plates, though it is usual to encourage them to keep a modest bank balance in the country of registration, e.g., sufficient money on deposit to pay a year's registration renewal fees. If such registrations multiply, a useful sum of money may be brought into the country for the benefit of the banking system or Treasury, apart from the revenue from fees.

Residential Havens

The classic example of the "residential" tax haven is a place such as the Bahamas and Bermuda where there are no income taxes or death duties. Wealthy individuals and many businesses seek a residence there and although they pay no direct taxation they are taxed in other ways. Such havens have no direct taxes and commonly quite heavy indirect taxes and customs duties on imports in general have been the main feature.

This is the reverse of the situation in the Falkland Islands where income tax is relatively heavy but there are customs duties only on tobacco and alcohol. It would of course be possible to alter the fiscal pattern in the Falklands if one wanted to establish a residential tax haven. One has to bear in mind, however, that many of the profits of overseas companies which are derived in the Falklands if not taxed in the Falklands would still be taxed in the overseas country of residence so that giving up company tax would not help the Falklands budget.

There are one or two countries that have taxes on corporate profits but no income taxes on individuals. This position is only acceptable where all companies are based overseas, which is not the case in the Falklands.

Another variation is the case of the offshore islands of Britain; Guernsey, Jersey and the Isle of Man. None of these has death duties and the former two have a maximum income tax rate of 20%. The Isle of Man has a maximum of 21½%. In each case the personal income tax relates to world income which, in the case of a wealthy person may not be so attractive as the situation in another country with taxes which does not seek to

tax his overseas income at all. There are some cases of that kind such as the island of Hong Kong which does not tax foreign income at all and the island of Singapore which taxes foreign income only if remitted to the country. Another island in this category is the British Virgin Island where the maximum income tax rate is 12% and there are no death duties. The various residential havens that have been mentioned are places where on the whole it is pleasant to live, the climate is genial, there are democratic governments and a stable political situation. In the case of the offshore islands of Britain, of course there is easy access to Britain and Europe, subject to the individual not staying too long so that he becomes resident in some country besides his tax haven base.

Another type of residential haven is the Irish Republic. Persons who go to live there and who have made a name in the arts as writers or artists, dramatists and so on are exempt from all their artistic earnings. The idea is an attractive one although of course the same "customers" could also go to one of the other residential havens already mentioned.

Another category of residential haven is one where there are direct and indirect taxes of some magnitude but there is a special regime available for a person who wants to set up residence without actually becoming a full time resident of the country. In a number of West Indian Islands it is possible to build a villa perhaps for ultimate retirement and meantime as a holiday home, e.g., without becoming resident for local income tax and probably contributing mainly through "rates" on the villa to revenue, and through local spending, including the building and maintenance of the villa, to the local economy.

There might be scope in the Falklands for a person interested in setting up some kind of residential base, other than full tax residence. One would not want him as an absentee to take over or rent property which would then become unavailable for other people to live in, but conceivably such a person might retain a room in the Upland Goose Hotel or another residential establishment, pay some sort of retainer and have a priority right to come and stay there on giving reasonable notice to the proprietor. Sometimes it is possible for a person to allocate some of his world-wide income to a particular country for taxation on relatively moderate terms and he is content to do this rather than be exempt from tax altogether. In such circumstances it might be possible to work out some kind of arrangement for some minimum tax to be paid without of course breaching the terms of any double taxation agreement which involved the Falkland Islands with another country. Quite a number of successful authors have taken up residence in Malta which for some time has had a special regime for newcomers. While in practice a reasonable contribution to local revenues has been made, the persons involved have not usually paid the full tax there on their world income. To come within the terms of the United Kingdom/Falkland Islands Double Tax Agreement and the guidelines of the Foreign and Commonwealth Office it would not be possible to invent anything artificial but if there were some interest from certain types of people such as writers, artists, and naturalists in having a stake in the Falklands one should not dismiss altogether the possibility of making some kind of arrangement with them which would be mutually beneficial and produce some relatively painless revenue for the country.

DEVELOPMENTWIDER OWNERSHIP OF AGRICULTURAL LAND

The Lord Shackleton Mission mentioned that there were arguments for a wider ownership of land and "an increasing feeling among both farm employees and managers of the need to provide Falkland Islanders with a greater stake in their economic future." They also mentioned that there was scepticism on the part of managers of the benefits of breaking up existing farm units which might have a detrimental affect on output and thus on incomes and tax revenues. The Mission also noted that subdivision in South America had often had adverse economic effects but that it was dangerous to draw parallels where circumstances were very different. The main possibilities seemed to be (1) an outright sale of islands or self-contained farm units and, (2) some form of leasing or crop-sharing by which the individual who has been given an opportunity to be an entrepreneur could build up his capital for perhaps a complete takeover on a pre-arranged formula at a later stage.

The Shackleton Mission listed the following Islands as evidently suitable for this kind of development:

Lively (?two units)	}	F.I.C. owned
Bleaker		
Speedwell		
George		
Barren		
Ruggles	}	other owners
Beaver		
Saunders (?two units)		
Golding		

The first six of these Islands are owned by the Falkland Islands Company, the remainder by other companies. Some developments have taken place since the Shackleton Mission's visit, Golding Island has been bought by Mr P. Hirtle from the previous owners and is apparently proving a worthwhile venture. As regards Bleaker Island it is understood the houses there have been dismantled and the island depopulated and stocked with wethers which, in the usual way, are left to their own resources and gang-sheared once a year. As to Speedwell, it is understood now to be farmed by only one employee of the Falkland Islands Company, that two houses have been taken away and two still remain.

An island not listed above, Sea Lion, has been sold by Robin McGill to Terry Clifton who now farms the 2,500 acres with 1,500 sheep. Robin McGill in turn bought Carcass Island. The price for Sea Lion was generally understood to be \$10,500 including the house and sheds and it is said to be a well-run unit. Golding Island group was understood to have been sold for \$20,400, the property included the house and a boat and 3000 sheep. Keppel Island has recently been purchased by Simon Miller and it seems to be general knowledge that the Falkland Islands Company helped finance this purchase. The Falkland Islands Company are also understood to have helped greatly in the acquisition of Sea Lion Island by one of their employers who was previously working on another island for that company.

Depopulation of Islands

The Falkland Islands Company made the point in their reply to the Shackleton Report that they replaced breeding ewes on two of their smaller islands with dry sheep for sound commercial reasons: the replacement actually increased wool production.

On the other hand, once an island is depopulated and the sheep left to roam at large, being gathered only for shearing once a year, the property inevitably gets run down and fencing and tussac tend to disappear. In the long term the land becomes less valuable.

Further, it is not sound to compare merely wool production where an island previously produced lambs as well as wool. An average percentage of lambs to ewes of around .65 lambs per ewe seems fairly normal in the Falklands. On some of the islands, however, and some of the better farm units a much higher ratio such as 1.1 to 1.2 can be achieved. If an island is suitable for breeding lambs, (not all islands are suitable), it surely makes better economic sense to use the island for that purpose than to use it for wethers that can be run anywhere. If lambing ewes have to be put on worse ground somewhere else to compensate for the loss of lambing facilities on islands this involves economic loss.

The Falkland Islands Company, in saying they were prepared to consider leasing some of their outlying islands, mentioned the heavy burden on Government in providing medical, educational and other services while suggesting the change would probably provide less tax revenue to pay for services.

The Falkland Islands Company also took the point that they maintain vessels to service the outlying islands (in addition to the MOHSUMEN which is chartered by the Sheepowners' Association as a whole) and that leasing of the islands would mean the new occupier would cease to use the existing shipping services involving greater costs on other users. This seems to assume that a new lessee or owner taking over a remote island would provide his own shipping facilities and this surely does not seem to be very likely. If it were indeed a likely happening it perhaps could be avoided by making a specific term in the lease or even in a contract of sale to ensure that the services of the existing vessels continued to be used. A similar clause could be put in to ensure that the wool from a leased island was freighted and marketed along with other wool so as to reduce unit costs of the marketing process.

In practice the Falkland Islands Company have recently given considerable assistance for the outright purchase of islands formerly owned by other companies and have also offered to lease their own Swan Island to a would-be tenant, though it is understood none of the tenders were accepted, nor minimum terms published.

The points made by the Shackleton mission at pages 127/131 do seem to the writer to remain valid. It is clear that there are young men eager to take on farming as proprietors. Several islands have thus been taken on in recent years and the writer has heard no comment from anyone that this was other than a good development. If there is good entrepreneurial material about,

and there seems to be, it is also sensible to provide opportunities for those involved (who have often accumulated capital by extra work and saving) rather than have them emigrate.

One curious feature is that those who argue that it would be uneconomic for them to lease or sell parts of their lands sometimes advocate that Government should itself buy farms which may come on to the market and break those into units for lease or sale.

These notes tend to dwell upon the Falkland Islands Company more than one would wish mainly because it is this company which has taken the trouble to comment upon the reports of various experts, while making some proposals of their own. One is, however, perhaps entitled to take the company up on their own proposals, particularly where they seem to be lagging behind the rest of the private sector.

From the fact that the Falkland Islands Company have actually greatly helped in one or two instances the process of "wider ownership of agricultural land" released by other companies one must assume that points no doubt sincerely made at the time of their October 1976 "Reply to the Shackleton Report", viz,

- 1) loss of tax revenue to Government;
- 2) placing of heavy burdens on medical, educational and other services;
- 3) unprofitability of "farming" islands remote from Stanley;
- 4) non-use by new owners of Sheepowners' Association chartered vessel;

have now been abandoned.

While it hardly seems to be necessary perhaps it would clear the air if a formal statement were made by Government that it does want wider ownership of land and will not object to this on any of the grounds assumed by the Falkland Islands Company. There is, in fact, no evidence that the Government has ever complained of possible loss of revenue or of burdens on medical services as a reason for not wanting wider land ownership.

The Falkland Islands Company is of course criticised, often unfairly but has in return delivered a heavy attack on the Shackleton Report.

The company has however expressed willingness in the plainest terms to "consider leasing some of its islands which should provide a reasonable living to one or more families". In practice it is the other companies which have taken the lead and the Falkland Islands Company has not only not done its share but has apparently set off in the opposite direction, e.g., by taken away the housing from one of its more viable islands (Bleaker). While no one should doubt the company's good intentions, there does come a time when intentions should be translated into action. The present moment when the company seems to be in the course of being taken over would be a useful time for it

to clarify its position and indicate what and when it proposes to do.

Instead of the matter being dealt with in Reports and Replies to Reports, presumably it could be speedily clarified by the Falkland Islands Company headquarters writing a reasonably detailed statement of its intentions to the Falkland Islands Government, perhaps with a copy to the group which is proposing to take over the parent company of the Falkland Islands Company, thus making a commitment which one would hope was honoured by their successors.

Methods of Leasing of Farming Property

Some information has been provided about leasing arrangements in New Zealand by Mr Tony Blake of North Arm. There are understood to be three types of leasing agreement where the terms are roughly as follows.

- (a) 1st category:
 - (i) 29% of the gross wool crop is allowed to a share-farmer along with a house to live and woolshed and other services.
 - (ii) share-farmer provides labour and looks after the general running of the sheep on the land.
 - (iii) general maintenance and capital expenditure are paid for by the owner.
- (b) 2nd category:
 - (i) share-farmer receives a house but is responsible for all labour and maintenance of buildings and fences.
 - (c) the 3rd category concerns private contracts between individuals which vary according to circumstances. A typical agreement would be -
 - (i) lessee to provide all labour, maintenance, etc.
 - (ii) landlord to provide house, buildings and land.
 - (iii) lessee to provide livestock.
 - (iv) landlord to receive 50% of wool.

Methods used overseas, even in a sheepfarming country such as New Zealand are not necessarily appropriate in the Falklands. On a comparison with New Zealand, for example, it may be that the area to be covered by shepherds looking after the same number of sheep would be 10 times as much in this country and that therefore the labour element should be greater than in the lush pastures of the Antipodes.

At any rate, leasing appears to be a fairly new concept in the Falklands and it is one possible way of giving an employee an entrepreneurial interest in his work. It is no doubt a matter where the industry will be able to advise Government rather than the other way.

OUTFLOW OF PEOPLE FROM FALKLANDS

Almost as much is heard of the loss of people by emigration as of the outflow of funds, and the writer is indebted to Mr Richard Cockwell of Fox Bay for pointing out one cause of loss which has a financial aspect, which Mr Cockwell considers could probably be "cured" fairly simply.

Farm employees on contract

Employees recruited from overseas are either on a four-year contract with fares both ways paid by the employer or on a two-year contract with only the outward fare paid. If the new employee is otherwise worthy but does not find it easy to settle into the particular station to which he is allocated, he might nevertheless be able to adapt well in another station. Something similar to this is done in universities in Britain for students coming "up" from school for new courses (which are usually quite different from the subjects they studied at "A" level). If they do not settle to the new courses (they have already proved their mental ability) they are allowed to change to new subjects at the end of the first or second term.

His first employer will not, however, be keen to let him go since he has borne the outward fare. What is needed is a simple "fare" clause in the standard contract used by farmers in the Falklands. If the contract is for 24 months, an employee would "work off" so many 24ths of the fare and recruitment expenses according to the number of months he has worked for his first employer. In the case of a 48-month contract there would be so many 48ths of the return fare to deal with. The employee would be eligible for "transfer" by agreement, to any new employer who offered suitable salary and was prepared to pay the unexpired part of the fare liability.

Of course, priority must be given to Falkland Islanders in recruiting for any job vacancies that arise but it may be that thereafter recruitment of "ex-patriate" farm workers would be easier if the more flexible contract proposed were adopted.

This is another case where the private sector, rather than Government, should presumably take the lead. It would need mutual goodwill and a gentlemen's agreement not to "head-hunt" by offering higher salaries to attract employees away from a fellow-employer.

If Government were involved, e.g. to advise on the appropriate tax treatment of "transfer fees", the advice could be quickly provided.

DRESSING AND PROCESSING OF SKINS

The subject of "pickling" sheepskins for export was raised in the Shackleton Report and the writer went into the subject in some detail in London with skin merchants, the Leather Trade Association, the Leather College and the Tropical Products Institute. He also discussed the matter with Mr L G Blake, who has been engaged in slipping skins for several years and with Mr Brock Hardcastle who had experimented in tanning.

After discussions within C D I it was agreed that an adviser, in the shape of Dr Barlow of the TPI, could be sent out for one to two months, not to write a Report, but to give practical demonstrations of the way to process sheepskins, with and without the wool on, and also possibly of the tanning of cattle hides.

Dr Barlow was to bring out or send ahead his own supply of chemicals for demonstration, and Mr Hardcastle undertook (a) to send follow-up supplies (for sale in the West Store) on the August voyage of the Annette Danielsen, and (b) to arrange a meeting with Dr Barlow of himself, Mr L G Blake, Mr David Barton and Mr W Luxton, all on holiday or business in Britain. The writer was able to introduce Mr and Mrs Hardcastle to Dr Barlow at a business lunch at his club in London.

It appears that a considerable amount of work has been done on tanning etc in several farms in the Falklands but no one has so far managed to get the process exactly right. In some cases the efforts have been made by trying to follow handbooks published overseas where the foreign technical terms used are not always familiar to persons living here.

It was agreed that there should be public demonstrations by Dr Barlow in Stanley and in several other places in East and West Falkland - each would take about one week for all the processes to be completed, and only simple apparatus would be required; e.g. a number of clean drums and a supply of water, plus access to the public.

The precise requirements are expected to be notified before Dr Barlow's arrival in October and it is hoped that the work done on the visit will be incorporated in booklets for follow-up reference by those interested in continuing.

Export Potential

It appears there is a ready market in Britain for processed skins among established dealers, but it is not envisaged that there would be marketable quantities of such skins (other than slipped skins which Mr Blake has already marketed in test quantities in Britain).

There would be a slow build-up from a "kitchen" industry using oil drums and small quantities, initially for local sales, then for tourists, before contemplating exports.

To plunge in at the deep end with, say, a £100,000 tannery is not what the writer would advise, but if the small-scale work undertaken in various localities proves successful there should be a natural impetus to increase the scale of production stage by stage.

OTHER PROJECTS

Forestry : Shelter Belts etc.

On learning in London of lack of shelter for trees in the Falklands the writer had a preliminary chat with an old colleague in O.D.M. Mr J. Wyatt-Smith, regarding the sort of tree that might be suitable and the availability of seed, the favoured variety being in fact lodgepole pine (*pinus contortus*).

On arrival in Stanley, the writer found that Mr J. McAdam of the Grasslands Trials Unit was already preparing radio talks on the subject of shelter belts and while O.D.M. located a source of seed in the United Kingdom Mr McAdam was able to obtain orders from local farmers to cover the cost of 1.5 kilo of the seed which has now been ordered by air parcel post so that an early start may be made with this long-term project.

Milk Supply for Port Stanley

The writer encountered the problem while trying, unsuccessfully, to arrange for a personal supply. The attempt coincided with moves made by the milkman Mr C. Spall to reduce by half his milking herd and his list of customers (from 183 to 90).

Fresh milk is at present retailed at 12p per pint with delivery to three collecting points in Stanley (personal delivery to a few sick and aged) compared with about 9½p per pint for the best whole-milk powder when made up. In flush periods of milk production the excess supply is made into cream at 50p per jar, for which there is a ready market. Some of the skim milk is used, the rest poured down the drain.

The existing premises are inadequate and cannot be improved and three solutions have been mooted, a scheme for a new dairy etc. (Brown Report) costing around £60,000, a simpler scheme put up by the G.T.U. costing about £6,000. Mr Spall's own scheme would involve his taking over existing Government buildings and modifying them at his own expense (estimated at £2,000) perhaps obtaining a loan from Government's revolving fund for the purpose.

So far the Stanley dairies have been favoured by being allowed to rent grazing, and Government paddocks fairly cheaply, although it appears that more help, e.g., perhaps with temporary fencing of parts of Stanley Common (possibly in conjunction with grass experiments by the G.T.U.) may be needed.

Obviously the matter requires careful consideration but at least the suggested solutions do not seem outside the realms of possibility.

Vegetables

Again the writer's personal experience in trying (successfully) to organise a supply of fresh vegetables has brought home the position and the problems.

Most Stanley houses have large gardens and the householder produces his own vegetables - some allow their gardens to be cultivated by others, a few gardens remain uncultivated.

There is virtually no retail trade in vegetables because -

- a) the grower who has produce for sale can find a market by word of mouth around his neighbours, or will put out a radio announcement, in either case "cutting out the middleman";
- b) similarly someone wanting to buy vegetables will convey his needs to friends and neighbours, usually successfully. The writer sought the help of the Co-operative Retail Shop whose staff managed to secure for him supplies of carrots, swedes, and cabbages, without charging commission;
- c) the going price for all types of locally-grown vegetables is 8p per lb. and the grower can obtain this price without the help of a retail shop through seeking custom directly. He is not therefore inclined to accept a lower price;
- d) the buyer of local vegetables is prepared to pay the going price of 8p per lb. to the grower and is, therefore, not inclined to pay a higher price to a shop or "middleman";
- e) one shop which tried to trade in green vegetables found there were few takers - it is of course an economic fact of life that gardeners will tend to "unload" surplus supplies when they are plentiful everywhere and a shop which takes them on may have trouble in disposing of them especially if it tries to sell about the traditional 8p per lb. (Incidentally the going price for meat, whether mutton or beef, is 10p per lb.).

Nevertheless shops do sell dried and canned vegetables so that theoretically there ought to be a market, if one could find a bold and persistent shop-keeper to persevere with the trade.

Although vegetables grow well, potatoes are occasionally wiped out by summer frosts, and on odd occasions potatoes have been imported in small quantities (2½ to 5 tons) to supply mainly camps affected by frost.

The F.I.C. have agreed to put on sale in the West Store, on a commission basis, vegetables grown on Keppel Island and other parts of the West Falkland which are frost-free in summer. It is hoped that there will be early potatoes brought by the MONSUNER, for Christmas 1977 and if the experiment is successful, the practice may increase.

In addition a feasibility study of marketing vegetables in Stanley is understood to be in the pipeline, which should clarify the situation.

"QUALITY OF LIFE" DEVELOPMENTS

Some of the minor developments referred to in this section relate more to the quality of life than to striking economic take-offs. Some developments even involve economic loss to a minor degree, for example, the tendency for more householders to use oil and electricity instead of peat (which though "free" involves a lot of hard labour in the summer months) is one with which one can sympathise, but which involves an extra charge on the balance of payments.

The more efficient exploitation of peat is a matter which has been given thought in the past and no doubt worthy of a little attention in the future. Older feasibility studies have presumably been made in the context of very much lower prices for competing fuels such as oil and coal. It might now be worth dusting off some of the older ideas about compressing or briquetting peat and re-appraising them.

Some proposals, such as the arrangement if possible of round-the-year fish supply, seem to be technically simple, and if traders could steel themselves a little more to get involved in vegetable marketing the joint effect might be some import-substitution (of dried and canned goods) which would be economically and nutritionally desirable.

Building a swimming pool to which brief allusion is made is one "quality of life" improvement which could not be guaranteed to be profitable but might nevertheless be worth tackling in modified form.

Roads and Ferries

This topic was the subject of a constructive discussion by the Sheep Owners' Association (at their suggestion) the writer explaining that his main interest would probably be -

- (a) helping to devise means of financing road building and maintenance (e.g. by levies on lands in general or on the camps through which the roads would pass);
- (b) to point out possible repercussions on FIGAS and the m.v. Monsunen - both loss-making services at present- if roads were designed to compete with those services.

At present a review of communications is being made by a Cambridge team, and an ODII survey is shortly to be made so that the matter is effectively subjudice. When the types (and costs) of roads to be built are known it will be easier to assess the probable revenue requirements for maintenance.

The need for a ferry between West and East was raised and the view was finally taken that a limited service (say 4 periods of a week or so per annum) could probably be provided by the existing vessels Monsunen and Forrest if very long notice of the dates when ferrying would be required could be given and a schedule worked out.

The earliest occasion would probably be Christmas/New Year 1977/78 when farmers might want to bring horses and Land Rovers over from the West to attend Stanley races. If the 'Forrest' were on manoeuvres in the Falkland Sound at some of the relevant periods, and the Monsunen's schedule tailored to fit other periods, presumably the service could be provided at minimum cost.

Since it is the SCA which charters the 'Monsunen' it is a matter for discussion (and really long-term planning) between them and the Government in arranging availability of vessels. There can be no economic case for providing a new (additional) vessel primarily for ferry service between the two halves of the country.

Swimming Pool

The writer took a look at this project rather as a spare-time activity (although presumably it qualified as a social development). An impasse seemed to have been reached in that although an excellent building was now available the latest designs involved expenditure of £60,000 at 1975 prices, plus a few thousand pounds more for having the plans thoroughly vetted (at the suggestion of the designers) by a firm of construction consultants, plus any price increases since 1975.

The designers in effect ruled that there would not be enough "waste heat" from the power station, even during winter when there is much greater usage of the generators, and that supplementary heating by Ideal Boiler generating 525,000 B.T.U./hr. would be necessary.

Since the main usage (curiously enough, and following U.K. experience) might be in Summer there seemed to be a need in any event for the thermal heater (which was quoted at £626 at 1975 prices).

As the full proposed scheme might prove a "white elephant" and the money in the Swimming Pool Fund only amounts to about £9,500 it appeared that a simpler and smaller scheme might be more immediately feasible. While the writer was in Stanley a radio programme gave an account of the speeches made at the laying of the pool's foundation stone in February 1933 and the scheme is actually said to go back 100 years, though evidently it is not forgotten.

The minimum (as distinct from the ideal) scheme would appear to be to test bore the floor of the power house to see if a pool could be dug out more cheaply than erecting an above-the-ground structure. If the latter has to be then a temporary pool could be made of Braithwaite tank sections (widely used in the Falklands for reservoirs and oil storage) of a size say 24' x 20' x 4' - large enough to teach children to swim and just deep enough for an adult to have a swim. Initially the heating could be done by ordering first the supplementary heater in order to test the enthusiasm and approximate usage.

One helpful fact elicited is that if the pool design was regarded as satisfactory for providing some recreational exercise for Marines, a contribution towards cost might be forth coming from the Ministry of Defence.

If all went well Phase II would be the erection of the full-scale pool but the temporary "tank" would have considerable re-sale value and once the project is seen as viable no doubt ODM development aid could be used to instal heat-exchangers in the power station to exploit "waste heat".

Further details have been set out in a separate paper but action on the above lines seems to be the only feasible way ahead at present.

Fish

The possibility of developing large-scale and deep-sea fishing appears likely to be the subject of a special study when political matters have been sorted out. At the humbler inshore level there seems to be some scope for modest development if only as a means of varying local diet or selling moderate quantities to ships of call.

Mullet seem to be plentiful in summer when they are caught by fishermen walking into creeks in waders carrying hand nets - catches up to a ton have been made in this simple way, the fish first being located from a fishing boat. Typically, beheading and gutting is done on board on the way back to Stanley, a radio announcement that fish are available is made and rapid sales are made at the jetty. After two good catches in a row there is often little interest in a third, as housewives have by then stocked their refrigerators.

In winter little fishing is done and there is a shortage of fish. There is an obvious opening for a trader to buy up quantities of fish in the summer and deep freeze it for re-sale in the winter. Inhibiting factors appear to be -

- (a) fish is believed not to have a freezer storage life of more than 3 months, and
- (b) there appears to be a "traditional price" for fish of 12p per lb, beheaded and gutted, or 15p per lb if skinned as well, and there might be some resistance to higher prices in the winter, at least initially, even though substitute diet-varying imported foods would be far more expensive.

Against the day when inshore fishing might be on a large-scale - a fisherman from Britain is understood to be sailing here with his small trawler in September 1977 to do some experimental fishing - the writer has suggested to the acting captain of the 'Monsunen' and the Marine Commandant (charterer of the 'Forrest') that if any fishing were done from their vessels it would be useful to record what fish were found, in what localities and seasons.

On a wider scale there seems to be a fair amount of local knowledge of the best places for certain types of fish. (A Russian fishing vessel is understood once to have sold locally some hake it found in nearby waters) and it would make sense to collate all this on to a chart as a valuable reference work for any future take-off by a fishing industry, such as the re-deployment in Falkland waters of British Icelandic trawlers.

Upland Goose

The possible development of a limited export "Fortnum & Mason" trade in game birds depends on a number of factors including the results of the survey shortly to be made of the Upland goose in the Falklands - the main species which seems to offer an opportunity for sizeable cullings.

At present the retail trade in Stanley seems to consist of young men going off in a Land Rover for a weekend's shooting, bringing back the "bag", advertising over the radio that geese are available, and selling the birds at a street corner, freshly killed, at about 35p each - remarkably good value for the money.

If cullings are certified to be permissible, local freezer space would be needed to store the birds, plus some small freezer space on the charter vessel. Selling an unknown species to high-class grocers in, say, London may not be quite as easy as falling off a log, perseverance would be required and perhaps the Falkland Islands Committee would be able to assist with publicity (see also notes on Tourism).

Meat

In a land where so much meat is apparently "wasted" one's first thought is that it ought to be possible to achieve at least a limited export. The writer would have suggested a small-scale beginning and gradual build-up, i.e. the reverse of Ajax Bay, and investigated the subject in some detail in London.

Discussions were held with technical advisers in O.D.M., with Mr B.J. Kotulanski of the Animal Health Division of the Ministry of Agriculture, with Dr John Owen of the T.P.I. (with whom the writer made a journey to Gravesend to inspect the cargo accommodation provided by the ANNETTE DANIELSON), and Dr Steel of the British Embassy in Buenos Aires, as well as Falkland Islands managers visiting London.

The possibility of a small-scale pilot export (enough to fill a freezer-container to be carried as deck cargo on the ANNETTE DANIELSON) was looked into. Also needed would be

- a) a cooling house for freshly killed animals;
- b) blast freezing capacity (which perhaps could be improvised);
- c) deep-freeze capacity while waiting for a ship; and
- d) a means of transferring the carcasses from the shore deep-freeze to the ship.

It was thought (c) and (d) could be accomplished by landing (and shuttling) a freeze-container for shore use which could be moved on a low-loader to the ship's side.

All these projections, however, foundered on the abattoir requirements needed before meat can be imported into the U.K. (or E.E.C.). It appears that the requirements (of the Ministries of Health and Agriculture) would involve spending something of the order of £1,000,000 on abattoir facilities! The other negative factor was the view of Mr B. Hardcastle that Falklands meat was not really suitable for the British market.

It was the view of Dr Steel who acts as veterinary adviser in parts of South America and in the Falklands that improvements were needed to the Stanley abattoir and he supplied a report which the writer conveyed to Mr S. Whitley the Grasslands Trials Unit Veterinary Officer. If any of the deficiencies pointed out are serious it will presumably be desirable to make the improvement on general health grounds and for the benefit of the tourist trade.

The writer also brought out a set of documents on skin-dressing and abattoir requirements from the T.P.I. and U.K. Ministries for local use.

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RETAIL PRICE INDEX

The present Retail Price Index is based on prices prevailing at 1 January 1971.

The period since 1 January 1971 has seen some unprecedented price rises including the OPEC oil price "explosion", the subsequent lowering of prices through the obtaining of supplies from Argentina; there have also been the rocketing (and subsequent fall) of sugar prices, and more recently a sharp escalation in tea and coffee prices.

The result is that the index is now 144% above the 1971 level. It is generally accepted that an index loses much of its validity even at the 100% level because of distortions which are inevitable however carefully the basket weights are compiled and because of the tendency of housewives, and shoppers generally, to seek substitutes when prices of particular commodities go "through the ceiling" it is likely that the shopping "basket" of 1977 will be differently constituted from that of 1970.

Accordingly it is proposed that a Committee be now set up to review the Retail Price Index and arrange for household surveys to be made over a 3-month period from 1 October 1977 to 31 December 1977. Even over the 7-year period since the index was last constructed there are instances where goods which would have been purchased in 1970 are now no longer available, quite apart from the substitution effect referred to above.

It is recommended therefore that the Committee be given authority to amend the range of goods where this is deemed desirable because of changed circumstances.

The proposed review is required independently of any consolidation exercise, and independently of any pay revision, or even of what use may be made in future of a Retail Price Index as regards pay adjustments. Such an index is an important piece of economic information for a Government to have and it is vital that it be updated from time to time so as to retain its credibility.

Notes on Compiling Retail Price Index

Existing Index

A "household budget" survey to record and classify expenditure to compile a new "shopping basket" or weightings was last done in 1971 the reference date being 1 January 1971. As the index has now recorded an average percentage price increase of 144% over the 1971 base it is a matter of the greatest urgency to compile a fresh "basket" to take account of changes of household purchasing patterns. The first step is to authorise the setting up of a committee to deal with the collection of data.

For the purpose of the 1971 survey 5 employees in the lower, but not the lowest, income groups, each with a wife and children were selected from volunteers to keep records for the survey. Anonymity was preserved and their records of expenditure were destroyed after the material was used to compute the "weights" for the new index.

The incomes of the volunteers were respectively £768, £1092, £780 and £960 per annum. The equivalent incomes in present day money terms would be approximately £1560, £2082, £1572 and £1950, and it would be desirable to seek a team for the new survey in this income group.

The 1971 survey showed a change in spending habits compared with the previous (1948) survey as follows:-

<u>Item</u>	<u>Percentage of Expenditure</u>	
	<u>1948</u>	<u>1971</u>
Foodstuffs	39.0%	40.9%
Clothing	11.0	12.8
Fuel & Light	7.0	4.5
Household durables	5.0	5.4
Miscellaneous	3.5	8.5
Drinks	10.0	5.4
Tobacco	6.0	4.0
Housing (Rent & Rates)	17.0	9.8
Services	<u>1.5</u>	<u>8.7</u>
	100.0%	100.0%

There are many indicies which may be used to adjust salaries for variations in the cost of living - the method chosen in the Falklands is one of the best since it is based on actual expenditure of a group of employees in the income range most vulnerable to inflationary price rise.

The index is of course applied to employees at all levels but subject to a formula devised by Mr P.C.M. Sedgewick which gives the highest proportionate increases to the lowest wage and salary groups tapering off the increases in the higher ranges. This is the orthodox method of indexing pay.

The merit of tying the index to the expenditure of those who spend the largest proportion of their pay on necessities is that this gives maximum protection to that group without hurting the higher income groups (who also need the necessities) since in a broad way all prices tend to rise together.

As used in the Falklands the so-called Retail Price Index is more akin to a Cost of Living Index, and it is right that it should be. One alternative is to use an Index of Retail Prices in general based not on individual budgets but on consumer spending as a whole. Another is to use a "Value of Money" index which records the fluctuation (nowadays normally the fall!) in the value of money (or its "purchasing power") in terms of what it can buy.

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Neither of these would have advantages over the present system and because of the impact of the occasional tourist ship there would be much greater difficulty in compiling them.

Recording of Prices

The present system of recording the prices prevailing in the 3 largest shops in Stanley seems to be quite appropriate. The machinery for recording prevailing prices each month seems to be working quite well - there are the usual difficulties of relating goods available now to those incorporated in the original basket but these are overcome in a commonsense way. The work is under the general guidance of the Hon. Financial Secretary and there will be no difficulty in applying as a routine matter the price information to the new "basket" when it has been determined by the Committee. The Stanley retailers appear to do a good job and do not immediately put up prices for particular goods when the replacement cost rises but sell the old stocks in general at the old price. This may mean, however, that even in the same shop there may be different prices for the same commodity. Between different shops the prices may from time to time vary even more widely as one may have greater stocks of certain goods at old prices than the others. At the time of writing, for example, evaporated milk in tins has been on sale in one of the 3 shops at 22p, in another at 27p and the third at 32p but to average the prices of the 3 should produce truer results over a period of time.

Consumer Price Service

In passing it is suggested that a useful service might be performed by the radio station if the best prices of staple foods on sale in the various shops could be announced weekly as a broadcast programme. This service is provided in some other countries and it is understood was once provided in the Falklands. Of course shoppers make their own comparisons, but those least able to trudge from shop to shop, the old and the disabled, are often those most needing to know where best to spend their money. To the extent that the service provided free advertising for shops it might be possible to make a small charge to shops featured in the broadcasts.

Forms and Notes for Guidance

A draft letter to those taking part in the household survey (for the period 1st October 1977 to 31st December 1977), based on that used in 1971, a draft record form, and draft guidelines for the Committee have also been drawn up.

DRAFT NOTES FOR GUIDANCE OF RETAIL PRICE INDEX COMMITTEE

1. Draft forms for issue to the volunteers doing the household survey and a draft covering letter are attached. The Committee may of course modify or alter the drafts in any way they think fit.

2. Classification:

One difficulty in compiling household budgets is to classify items appropriately - the answer is that so long as there is consistency in completing the original weights and in working out the subsequent comparison figures, the index, which is essentially a comparison of prices, will still be accurate.

3. Rent:

Where a person owns his own house or is buying it with the help of a mortgage the best procedure is to ignore interest and capital payments, because these will vary widely between someone who has just bought a fully-mortgaged house and another person who may be in the last stages of clearing off a loan on a similar house. It is better technique and gives a truer picture to record instead a notional rent figure based on comparison with other rented property and with reference to rating value.

4. Comprehensiveness:

Even the most efficient persons have difficulty in remembering all they spent their money on but while one should strive to obtain complete records, a few omissions are not especially serious unless they alter the pattern of spending. For example, a householder may be over-modest about his spending on beer, whisky and cigarettes. Since the prices of these goods can vary considerably and they are a normal part of consumer spending, it is in the householder's interest fully to record his expenditure thereon. It should be stressed that the records are completely confidential and are eventually destroyed.

5. Customs Duty etc.:

Prices must include all taxes levied on goods and services - in the Falklands shop prices already include duty so there is no problem. Income Tax and Estate Duty are not expenses to be recorded but rates are to be included with rent.

6. Once-a-year Expenses etc.:

Although expenditure is actually recorded in detail for a 3-month period it is important that as far as possible it should represent 3/12ths of the expenditure of the whole year. Accordingly a bill for a whole year's supply falling within the recording period should be proportionately reduced, bills paid outside the period should similarly be brought in.

7. Certain payments should not be included in the survey because they do not relate to goods and services sold by retail and do not belong in the Index. The list includes the following, some of which are referred to above -

- Income tax
- Donations to Churches or charities
- Gifts and loans in general
- Savings, investments and deposits in Savings Bank
- Life Assurance premiums
- Pension and Provident Fund contributions

Lottery tickets or other "gambling"
Interest on loans
Repayment of loans
Fines or penalties

8. Monthly Price Checks in Shops:

Forms for this and the procedures are already laid down and in use. In strictness all price checks should be made on the same day each month but this is of minor importance in Stanley where the main cargoes arrive at intervals of several months.

DRAFT LETTER TO VOLUNTEER HOUSEHOLDERS

Dear Sir/Madam

This letter relates to the enquiry regarding the recording of family expenditure in which you have kindly agreed to co-operate.

I enclose a set of forms for the months of October, November and December. These forms provide for information to be listed under the following headings:

Foodstuffs
Clothing
Household durable goods
Miscellaneous goods
Drinks
Tobacco
Rent, Rates and property repairs
Services

Exceptional expenses: Fuel: Household (peat, kerosene, diesel, electricity)

What we would like you to do is to record every day the money you have spent, whether you have paid cash for your purchases or whether you have purchased on credit, and what you have bought. Two exceptions to this are your milk and meat bills which you can enter against the last day of the month when the bills are received.

Most of the things you buy can be easily classified into one or other of these groups, but "Miscellaneous goods" and "services" cover many items of which a few examples are indicated on the form.

It is important that you record all expenditure, not only the household payments but such things as entertainment expenses, children's pocket money, etc. If there is anything that does not fit into these groups please record it separately; for example Christmas gifts and decorations should be a separate item under the heading of exceptional expenses.

If you have any difficulty in deciding how to record the information please do not hesitate to call on me or a member of the Committee for help or guidance.

Some important bills are only paid once a year, and if you do not pay them in the period October to December please make a note of them. These bills include:

- a) your Stanley rate bill
- b) your peat bill
- c) insurance

and there may be others.

In addition please record two quarters' electricity (one winter and one summer) bills.

One point needs to be stressed. The information you give needs to be as accurate as it is possible to make it. Information omitted or incorrectly given may lead to an erroneous assessment of how the family man spends his money: and the effect on the revised index of retail prices is just as likely to be to the wage earner's disadvantage as to his advantage.

In conclusion please accept our thanks for your offer of assistance: we, on our part, assure you that the information you provide will be kept strictly confidential to the Committee and your forms will be destroyed when we have extracted the information we require.

Yours faithfully,

Chairman
Retail Price Index
Committee

CONFIDENTIAL

DRAFT FORM

HOUSEHOLD EXPENDITURE OCTOBER 1977

(N.B. Continuation Sheets are available)

<u>Heading</u>	<u>Period</u>	Saturday 1 October to Friday 7 October	Saturday 8 October to Friday 14 October	Saturday 15 October to Friday 21 October	Saturday 21 October to Friday 28 October	Saturday 29 October to Monday 31 October
<u>Foodstuffs</u> (including milk, soft drinks & confectionery)						
<u>Clothing</u>						
<u>Household Durables</u> (furniture, refrigerator etc.)						
<u>Miscellaneous Goods</u> (towels, crockery, cutlery, tin-cans etc., tooth-paste, aspirins etc.)						
<u>Drinks</u> (beer, spirits)						
<u>Tobacco</u>						
<u>Rent, Rates & Property Repairs</u> (If you own your house include an estimate of rental value)						
<u>Services</u> (travel, cinema, telephone, hair-cutting etc.)						
<u>Fuel</u> Household (petrol, kerosene, diesel, electricity)						
<u>Exceptional Expenses</u> Xmas presents, medical visits overseas etc.)						

NOTE Please enter items and costs.

Household Expenses October, 1977 Cont.

Do not include payments for:-

Income Tax
Donations to Church or charity, Gifts in general
Savings and deposits in Savings Bank
Life Assurance premiums
Interest on loans
Repayments of loans
Lottery tickets
Pension contributions

F10

P.A.Y.E. : TAX DEDUCTION SCHEME FOR EMPLOYEES

The proposal to introduce some form of tax deduction scheme for employees has already been submitted in outline to Ex. Co. Since the original proposals, more views have been obtained and the matter has been discussed informally with the Sheepowners Association, there seeming to be some sort of consensus that a voluntary scheme might be tried.

An employee would be permitted to fix his own deductions but could obtain guidance from the Income Tax Office if he wished.

The advantage of starting on a voluntary basis would be that if there were a slow build-up

- a) it would enable the work to be absorbed without initial recruitment of extra staff;
- b) teething troubles could more easily be coped with and problems identified and solved before preparing laws and regulations;
- c) from the employer's side also initial work would be minimised - if the employer's existing books can cope, e.g. by using an unused column or columns for the entries, form-filling will be kept to an absolute minimum.

Simple forms (the use of the Record forms will be optional) have been drafted as has the initial letter to employers and specimens are attached.

Some employers already encourage employees to put money aside in the Savings Bank with which ultimately to pay their tax. While no attempt will at present be made to interfere with this system, it is expected that when a P.A.Y.E. scheme is fully operative tax deductions will roughly represent tax that becomes due as pay accrues. In the meantime it is not desired to proliferate Savings Bank transactions as a means of tax collection - separate proposals are being made to broaden the services of the Savings Bank in other directions.

It is envisaged that legislation will be sought at a later stage, possibly at the Budget Session in 1978 to confirm the informal system of tax deductions, which by then should be well under way, and to apply compulsory deductions to employees in arrears with their tax and who seem to have difficulty in "keeping up".

"Imposed" deductions would not^{be} beyond the means of the employee and in the relatively few cases where the compulsory power would be involved the intention would be that deductions would continue indefinitely but that the 5% penalty would not be involved during the "catching-up" period, the law being suitably modified.

It would be expected that more and more employees would gradually join the scheme and that when the majority were in, "membership" would be made compulsory.

When the stage is reached (probably not for a year or two) that some employees may find their tax deductions exceed the tax assessed it is proposed that a stream-lined procedure for making refunds should be provided except where the employee would rather have the surplus money used to reduce his current deductions.

NOTIFICATION TO EMPLOYER

Income Tax Office,
Port Stanley.

August 1977

Dear Sir,

Tax Deduction Scheme for Employees

It is proposed to introduce a voluntary deduction scheme for employees. In essence an employee will be invited to "join" by authorising a certain sum to be deducted each week or month from his pay.

The employer would record the deductions either in his own books or on forms available from the Income Tax Office and make a single remittance for all deductions made at the end of each quarter.

At the end of the deduction period, which would normally be the end of the calendar year, the employer would prepare certificates of tax deduction (supplied by the Tax Office) in triplicate sending one copy to the Tax Office, giving one to the employee and keeping one for his own records.

It is proposed that the Deduction Scheme should start not later than 1 October 1977.

The assessment of employees' tax will proceed as usual each year commencing 1978 but a deduction will be made of the amount of tax pre-paid by deduction from pay during the quarter or quarters preceding the date of payment of the tax.

It is hoped that once an employee has opted to have deductions made from his pay for a particular year, he will continue his deductions in subsequent years.

It will be left to each employee to decide how much money to set aside by deduction. If he knows his earnings will increase during certain periods of the year, e.g., at shearing time, he may opt for a larger deduction to be made in that period reverting to a lower amount thereafter.

The Income Tax Office will be pleased to advise employees on the appropriate level of deductions if consulted.

Yours faithfully,

Officer-in-Charge,
Income Tax.

Form

TAX DEDUCTIONS FROM PAY

I, hereby authorise the

following deductions from my pay on account of income tax -

£ per week, commencing

£ per month, commencing

and until further notice.

Signed

Date

Form

(IN TRIPPLICATE) CERTIFICATE OF TAX DEDUCTIONS

I hereby certify that the following is the total sum deducted from the pay of for the period to and paid to the Treasury.

Name of employee Total Amount Deducted

Name of employer £

Signature

Date

Note: One copy of the form should be handed to the employee, one copy sent to the Income Tax Office and one copy retained by the employer.

91

TRADE MARKS

A proposed revision of the United Kingdom Trade Marks Ordinance has been drafted by the Registrar General who has fixed a new level of fees after consultation with the Treasury and the fiscal adviser.

The original fees were fixed in 1962 and now require to be increased because of the material decrease in the value of money since then.

When the matter was previously discussed it was suggested that much heavier fees could be imposed and the trade marks law used to provide a source of revenue.

The reasons for registering a trade mark are, however, mainly to have a ready legal remedy against -

- (a) any resident of the importing country who attempts to produce and market goods under the same mark in competition with the original;
- (b) any foreign exporter who dumps goods on the market in the importing country with the same fraudulent intent.

Neither (a) nor (b) is very likely to occur in a small market such as that of the Falklands, and if trade mark fees are raised too high it may be that exporters would cease to bother to register and take the risk of their trade marks being infringed.

The fees have been fixed with reference to prevailing rates in Gibraltar, and with a view to covering the administrative cost of dealing with Trade Marks registration.

Registration of United Kingdom Trade Marks Ordinance
(Chapter 59)

TRADE MARKS RULES 1977

In exercise of the powers conferred by section 13 of the Registration of United Kingdom Trade Marks Ordinance, and with the approval of the Governor, the Registrar has made the following rules:-

Citation and
commencement

1. These rules may be cited as the Trade Marks Rules 1977 and shall come into operation on the 1st day of January, 1978.

Applications
generally

2. Every application or request to the Registrar under the provisions of the Ordinance shall be made in writing and shall be signed by the party applying or by a person duly authorised on his behalf.

Prints of device
accompanying
application for
registration

3. Where the Trade Mark to be registered is a device, every application under section 4 of the Ordinance shall be accompanied by two prints of the trade mark.

Change of title,
applications
as to

4. An application for an entry in the trade marks register under section 10 shall be accompanied by a certified copy of the document or documents showing the assignment or transfer of the privileges and rights in the trade mark or of any other instrument showing a change in the title to or giving an interest in such privileges and rights. Such copy shall be deemed to be certified as a true copy if -

(a) in British Territory or in any place under the protection of the Crown or where the Crown has jurisdiction, it is -

(i) duly certified as a true copy by an official of the Government to whose custody the original is committed; or

(ii) duly certified as a true copy by a Notary Public of such territory or place; or

(iii) duly certified as a true copy on oath by the person holding the original at the time of the application before some person having authority to administer an oath;

(b) in any other place, it is -

(i) duly certified as a true copy by an official of the Government to whose custody the original is committed; the signature or seal of such official being authenticated by any of the British officials mentioned in section 6 of the Commissioners for Oaths Act, 1889; or

- (ii) duly certified as a true copy by a Notary Public of such place, the certificate of the Notary being authenticated as in paragraph (i); or
- (iii) duly certified as a true copy on oath by the person holding the original at the time of the application before a person having authority to administer an oath as provided by section 3 of the Commissioners for Oaths Act, 1889, the status of the person administering the oath being authenticated in section 6 of that Act.

Supply of prints necessary for certificate or for copies 5. On every application for a certificate or for copies, the person bespeaking the same shall, if necessary for the purpose of such certificate or copies where the trade mark is a device, supply the Registrar with a print or prints of the trade mark.

Renewal of registration 6. Notification under section 15 of the Ordinance of renewal of registration shall be made within six months of the date of renewal in the United Kingdom.

Evidence of renewal 7. A certificate of the Registrar of Trade Marks in the United Kingdom that a trade mark has been renewed shall be sufficient evidence of the fact.

Fees 8. The fees to be paid to the Registrar under the Ordinance are as follows -

	<u>1963 fees</u>	
On an application under section 4 to include the issue of the Certificate of Registration under section 5 (Registration of Trade Mark)	£ 6.00	£ (2.00)
On an application under section 10 (Assignment)	3.00	(1.00)
On an application under section 12 (Registered User)	6.00	(2.00)
On a notification of renewal under section 15 (Renewal of Registration)	3.00	(1.00)
On a request under section 16 (To cancel, correct or change)	1.00	(.25)
On a certificate by the Registrar	1.00	(.25)
On a search of the register	} for the first hour or part thereof 1.00 and for each subsequent hour or part thereof 1.00	(.12)
On a search of the record relating to a particular trade mark		(.12)
On inspection of a document filed	.50	(.05)

For copies of document -

(a) for an office copy - each folio
72 words or figures .25 (.03)

(b) for a plain copy - each folio
72 words or figures .10 (.02)

and if more than one copy bespoken -

(c) for examining a plain copy and
marking as an office copy -
each folio of 72 words or
figures .15 (.01)

for extracts of documents - each folio
of 72 words or figures .25 (.03)

for
reference
only

9. The Registration of United Kingdom Trade
Marks Rules 1962 are revoked.

Dated this day of 1977.

REGISTRAR

STAMP DUTY ON PROPERTY TRANSFERS & MORTGAGES

A legitimate, though uncertain in yield (it depends on the number of transactions), tax is that imposed on property transfers.

An increasing number of countries nowadays employ capital gains tax, and among those who do not, the transfer tax is often at relatively high rates. For example in Portugal the rate is 8%, Greece has 9%, and in Belgium the rate varies from 11% to 14% - France which also has high rates is currently changing to capital gains tax.

Among developing countries, the Seychelles charges 9% (4½% by each of buyer and seller), St Kitts 4% (2% each), St Vincent 6% (3% each) plus an extra 5% where land is bought by an outsider.

The justification for the tax (which already exists - Cap. 36 - at 1% in the Falklands) is that substantial profits are often made on property transactions, sometimes without the person profiting having done much in the way of developing it, and a capital gains tax is an unnecessarily complicated way of obtaining revenue. In some countries it has been the case that a large concern has been in a position to "mop up" parcels of land coming on the market at times of little economic activity, and resell at times when prices are higher.

In the Falklands, if development suddenly took off, land being needed for industrial or touristic ventures, for fish-drying, petroleum, kelp processing, housing, or market gardening, there might be a sharp rise in land values and a fair number of transactions. It would be important for Government to have changed its law in readiness for such a possibility, so as to gain some tax revenue.

There are usually fears that an increased tax on land transactions would increase the price of land. This has not been borne out by events and is contrary to economic principles - a tax on land in fact decreases to a limited extent, the value of land. The amount of money available to buy land remains the same and the seller has, in effect to take less. In practice the effect is not usually obvious as there are so many other factors at work that the effect of a tax change is obscured.

Usually also, concern is expressed at the effect on the poor man, perhaps an old age pensioner who wants to buy a small plot of land to build his retirement house. Both in Seychelles and St Kitts the matter was gone into in detail and complex provisions designed to try to avert this (largely theoretical) evil. In both cases, the elected governments in the end decided to drop the point as too trivial to warrant attention. Nevertheless it is a good idea to have some discretionary power which may be exercised in extreme cases.

A specific case could be made for exempting land used for building a new house (say below £10,000 in value), but it is difficult to draft legislation (the house might in the end cost more than the limit) and the tax element on a small piece of land to build a poor man's cottage would probably be too trivial

to have much significance. On the other hand any form of statutory exemption would tend to open a loophole. Such, at any rate has been the experience in countries poorer than the Falklands. Anyone who sells an existing house is, of course, almost sure to make a handsome profit so there is no case for exemption for these.

Some countries have split the increased liability to tax between buyer and seller, which incidentally has usually helped to "sell" the increase, and this may be done by an equal division or by "loading" more on to the seller. One advantage of an even split is that when Government buys or sells land, there is still sure to be some stamp duty revenue from the transaction.

In the case that there is a "distress" sale of land and the seller in fact has to sell the property for less than he paid for it, or not very much more, relief may be given by restricting the tax payable to say 25% of the excess of sales price over purchase price, i.e., to zero where there has been no gain at all.

Stamp Duty on Mortgages

Besides stamp duty on conveyances, the Falklands has still the antiquated duty on mortgages, which it is extremely difficult to justify in present circumstances. The duty invariably falls in substance on the borrower, and since he is at least nominally the one who is short of money, the duty does not make much sense - it probably yields little revenue, can easily be legally avoided, and ought to be abolished.

Company Shares

A 5% duty on conveyances of real property, which it is suggested might be appropriate for the Falklands, could be avoided by purchasing the shares in a company which owned property, instead of the property itself. Accordingly, it may be wise to provide that the 5% duty should also apply to the shares of any company the assets of which consist to the extent of say, 50%, of immovable property.

The proposal, which is one more likely to yield the odd windfall than a steady annual revenue, is set out on the attached sheet.

PROPOSED AMENDMENT TO CAP 36STAMP DUTY ON CONVEYANCE OF REAL PROPERTY

It is proposed -

- a) that transfers of real property shall be subject to stamp duty at 5% ad valorem, 2½% being payable by each of the transferor and transferee;
- b) that the duty shall be limited so as not to exceed 25% of the excess of the consideration given to the transferor over that originally given by him when acquiring the property, in the case of the 2½% payable by the transferor;
- c) that the Governor in Council shall have power to abate the duty in any case of hardship;
- d) that the stamp duty on mortgages be reduced to NIL.

Mr Harold Bennett, Registrar General, has prepared a draft Bill for consideration if the proposal is accepted.

D R A F T

A Bill
for
An Ordinance

Title Further to amend the Land Ordinance.

Date of commencement ()

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

Short title and commence-ment 1. This Ordinance may be cited as the Land (Amendment) Ordinance 1977 and shall come into operation on the day of 1977.

Repeal and replacement of sec. 12 (Cap.36) 2. Section 12 of the Land Ordinance (hereinafter referred to as the principal Ordinance) is repealed and replaced by the following -

"Charge of duties on deeds and trans-actions.	12. Duties shall be charged on the several deeds and transactions specified in the Third Schedule at the rate or rates respectively indicated."
---	---

Repeal and replacement of section 16. 3. Section 16 of the principal Ordinance is repealed and replaced by the following -

"Persons liable for duty	16. The deeds and transactions to which section 12 applies and the persons liable for duty in respect thereof are as follows:-
--------------------------	--

<u>Item</u>	<u>Deed or Transaction</u>	<u>Person liable for duty</u>
1.	Conveyance of land or real property.	The transferee (which includes the person in whose favour an order of the Court is made under section 11 hereof), and the transferor.
2.	Other conveyances excluding those in item 3.	The purchaser (which term includes the person in whose favour an order of the Court is made under section 11 hereof).
3.	Transfers of shares in companies the assets of which consist to an extent greater than 50% of land or real property.	As in item 1.
4.	Mortgages.	No duty.
5.	Transfer of Mortgages.	No duty.
6.	Reconveyance.	No duty.
7.	Lease.	The lessee.
8.	Assignment of lease.	The assignee."

Deletion
and sub-
stitution
of Third
Schedule

4. The principal Ordinance is amended by deleting the Third Schedule and substituting the following -

"THIRD SCHEDULE

(1) Conveyance of Land or Real Property

2½% of the value of the property transferred in the case of the transferor:

Provided that the duty payable shall in no case exceed 25% of the excess of the value of the property at the time of transfer over the value at the time the property was acquired by the transferor,

and, in the case of the transferee, 2½% of the value of the property transferred:

Provided that in the case either of the transferor or the transferee, the Governor in Council may abate the duty payable in case of hardship.

Transfers of shares in companies the assets of which consist to an extent greater than 50% of land or real property.

The same duty as in the case of the conveyance of land or real property.

(2) Other Conveyances excluding those in item 3 of section 16

Where the amount or value of the consideration for the sale does not exceed £1,000, 25p for every £50 or fractional part of £50 of such amount or value.

Where the transaction effected by the deed forms part of a larger transaction or of a series of transactions in respect of which the amount or value or the aggregate amount or value exceeds £1,000, 50p for every £50 or fractional part of £50 of such amount or value.

Lease

13p for each £50 or fractional part of £50 of the yearly rent reserved by the lease."

VEHICLE AND DRIVERS' LICENCE

Moderate vehicle licence fees are charged in the Falklands, the annual fee being £2 per annum for 4-wheeled vehicles or motor-cycles. The vehicles owned by YPF and LADE are free by agreement with the Argentine Government. A locally-owned vehicle is exempt from the annual licence if based permanently in the camp. For vehicles based in the camp which make regular visits to Stanley the fee is 50p per annum. The fees were fixed in 1948 and temporarily withdrawn in 1950 and 1968 (see later note under "Road Fund").

Vehicle Tests

Vehicles are tested when licensed as regards tyres, brakes, steering and lights and the testing is presently done by the Police department.

Driving Licences

A 3-year licence costs 75p and the driving tests cost 50p.

Tests

There are about 35 driving tests made per annum by the Police department. In the case of a motor-cycle the test is made by the Police following the motor-cyclist in a landrover and directing him how to show his ability as a driver.

Exemptions

Holders of U.K. or Republic of Ireland driving licences are not required to take a test in the Falkland Islands.

Vehicle Tests

There are about 500 annual vehicle tests and in practice the work is done by the Police department. The regulations (Reg. 14, Road Traffic Ordinance, Cap. 60) laid down a fee at the discretion of the Governor with a maximum of £1 but at present no fee is charged.

Insurance etc.

The question of insurance of the police officers who take people on driving tests has been looked into by the Police department and it is understood that an appropriate policy to cover the risks taken by the tester during these tests, that is to say a personal accident policy for the officers concerned is about £20 per annum from the Royal Insurance Company and cover would be needed for three officers. Because of the low speed limit of 20 m.p.h. the risks to a tester during a driving test are not as great as in other countries, (for example, in Britain where the limits are from 30 to 70 m.p.h. there have been some rather serious accidents involving driving testers) but there does seem to be a case for having the position properly covered by insurance. The various licences and fees have not been changed for some years and it appears that some modification is necessary if only to take account of the fall in value of money. It would be best to bring any such changes into effect along with changes in other licences and fees. What could be recommended immediately is that the £1 fee for vehicle testing be implemented and that the question of adequate insurance for officers making driving tests be fully considered.

Road Fund

The amount of revenue raised by vehicle and driving licences less the cost of collection, is a relatively small sum and road maintenance is costly. It is suggested (see notes under "Hypothecation of Revenue") that licence revenue be earmarked for road repairs and this proposal, which is for the longer term, may also help in determining the appropriate level of licence fees.

FIREARMS

The present fee for ownership or carrying of a firearm is £1 per item per annum and this charge was fixed in 1967. The importation of side-arms is prohibited. If someone sells a firearm to another person in the Falklands the change of ownership has to be registered and in the year of change there will in effect be a licence fee payable by each of the seller and the purchaser.

This is another case where mere "indexation" of the old licence fee would involve a substantial increase, in this case approximately a doubling of the charge.

In the view of the Police department, if the licence fee were increased some persons might be inclined to give up weapons they do not need. Where weapons are being kept as souvenirs or antiques it is possible that people would be encouraged to have them made safe or incapable of being fired in which case, provided the Police were satisfied, no licence would be payable. The recommendation in this case is that the fee should in fact be doubled but that any such change should take place in the course of a comprehensive review of all the licences and fees together.

REGISTRATION FEES AND OTHER CHARGESBIRTHS, MARRIAGES AND DEATHSCertificates

The price of obtaining a certificate of registration of birth, marriage, or death has fairly recently been increased from 12½p to 60p. There is no charge for registering a birth or a death.

The fees for marriages are as follows:

Notice of marriage fee	60p	
Banns read before marriage	60p	
Marriage in Church	£2.50	
Marriage in Registry Office	£3.00	licence
	£2.50	fee
Special Licence fee	£5.00	
Governor's Licence fee	£15.00	

It has been suggested that the forms of registration at present in use, which are on plain paper and signed by the Registrar General, should be replaced by certificates on security paper to make it more difficult to forge such certificates. No cases of forgery have come to light so far, but it is always sensible to take precautions. Samples have been obtained from Gibraltar of their certificates and estimates have been obtained from the Crown Agents of what the cost of similar security paper was in June 1975.

This is one case, however, where the experience in a larger country may be more relevant than that in Gibraltar, for example in Britain the system of certificating births was modernised some years ago. The certificates most commonly in use now are those which do not distinguish whether the child was born in or out of wedlock. This is known as the "short" certificate, costs appreciably less than the full certificate but is nevertheless acceptable by employers and for most other purposes. It is not uncommon for parents to buy several copies of the short certificate at a time knowing that there are various calls for these when the child grows up. At the suggestion of the writer, samples are being obtained from the Registrar General in England of both types of certificates as it is believed that these are not on security paper in the ordinary sense of that word but on the sort of paper which is used for computer print-outs.

Revenue Aspect

The various registration fees regarding marriages already seem to be relatively high and even as regards the certificates of births and deaths one can hardly expect any increase for some years. In fact if a short form of certificate for births can be adopted it would be recommended that the price should be not more than one half the present fee of 60p. For the full certificate of course one must cover the expenses of issue of certificates as far as possible but neither birth nor death is an occasion when one can reasonably charge fees other than the bare minimum that can be justified by handling costs.

PORT & HARBOUR DUES

The actual revenue from Port and Harbour dues and wharfage during the year to June 1977 is understood to have been £716. It is also understood that passengers from the large cruise vessels come in by small boats from the ships and alight at the Government pier but that other ships, including the FIC charter vessel and the cargo-cum-passenger vessels from the Argentine, dock at the FIC wharf. Government revenue comes from harbour dues and such small items such as pilotage.

Pilotage

The present fee for pilotage in or out of the harbour is £20 per vessel and it is intended to increase this to £40. A proportion of the fee goes to the pilot himself. The main harbour dues were last altered on the 11th July 1975 and because of the sharp fall in the value of money since that date might be already a case for increasing them proportionately.

Airport

In the case of air travel it is proposed to charge an embarkation fee to passengers using the new terminal facilities but not of course to charge them on landing; this is common practice in very many countries.

Seaport

As regards to embarkation at sea ports it is the practise in certain countries, e.g. Greece and Italy, for a charge to be made for passengers embarking through the port passengers terminals and there are examples of a landing fee being charged in some countries.

Neither of these levies seems to be suitable for the Falkland Islands and it is often regarded as invidious to put a levy per head on passengers landing from a cruise ship since one does not want to appear to be discouraging their landing.

In some countries, e.g. in the Mediterranean, where such a charge is made it is usually paid globally by the tour operator or the purser on the ship. Preferably, however one should make such a levy on the ship itself, based on its carrying capacity and regardless of how many tourists actually step ashore from the vessel. There are some problems where a ship carries both cargo and passengers but it is possible to construct a table of charges so as to make a charge on the basis of whichever facility the vessel is using most in its call to the Falkland Islands.

At present facilities for passengers who land in Stanley are limited and various suggestions are made under "Tourism". It is not thought that materially increased dues could be introduced for passenger ships until we can do a little more for them. (See however, proposal for an Import Handling charge which would produce a little extra revenue from high spending tourists, and notes on Banking regarding foreign exchange profits)

From the comparison in the Table below of Port dues in Falklands (1975 rates) and Gibraltar (1977 rates), the writer, who has advised in both countries, does not feel there is much scope yet for increasing the 1975 port dues for freighters.

TABLE IX
PORT DUES

Freighters

	1. <u>Existing charges</u>	2.* <u>Gibraltar</u>	3. <u>Yachts</u>	4. ø <u>Passenger Ships</u>
			<u>Proposed</u>	<u>Proposed</u>
under 10 tons	5	5	5	
10 - 50	10	8	10	up to 500 passenger
50 - 500	15	14	15	capacity
500-1000	25	21.50		£75
1000-1500	30	28.50		500-1000 passengers
1500-2000	40	35.50		£120
2000-5000	50	43		1000-1500 passengers
5000-10,000	55	50		£180
10,000-12,000	60	57		1500-2000 passengers
12,000-15,000	65	57		£200
15,000-20,000	65	64		over 2000 £225.
20,000-30,000	65	71		
30,000-40,000	65	78		
40,000-50,000	65	85		
over 50,000	65	92		

* rates introduced w.e.f. 1/4/77

ø freighter carrying less than
100 passengers to be liable
to rates in Col.1.

N.B. It is proposed that -

- (a) no change be made in existing dues for freighters
(Col. 1)
- (b) 2 new categories be instituted for (i) yachts, and
(ii) passenger ships;
- (c) the charges in Col. 3 be adopted;
- (d) the new rates in Col. 4 be adopted, but not until
more services, e.g., cambio and extra toilet
facilities are provided on shore for large tourist
ships (see notes on Tourism).

Sundry RevenueOverseas cables, Telephone, & Telex

These services are provided by Cable & Wireless Ltd. who it is understood pay Government a "royalty" of 15% of charges made. Government also receives income tax on the salaries of Cable & Wireless staff. It is understood that Cable & Wireless Ltd. work at a loss. The arrangements seem fair to the Falklands Government and no increase in revenue can reasonably be looked for, except from increased usage of the services provided.

Charter of MV Forrest

The writer is indebted to Mr L.J. Halliday, Head of Customs Dept. for the following table of revenue and expenditure for the year to 30th June 1977. The figure for depreciation is estimated and based on inflation - adjusted valuation of a comparable ship.

A deficit is shown this year but is attributable to the refit which took place. A surplus should accrue next year. The charter fee seems fair to both sides.

Table XYear to 30th June 1977

Charter Revenue receivable.	<u>£35,754.71</u>
Expenditure Incurred:-	
Personal Emoluments (Established Staff)	£ 5423.54
10. Deck Stores	245.87
11. Repairs & Maintenance	800.00
12. Victualling & Bedding	1327.58
14. Incidental Expenses	17.57
15. Insurance	1617.49
16. Bonus	1032.22
17. Labour	6910.00
18. Engine Spares	3188.02
19. Overseas Voyages & Docking	13560.88
21. Anchor Chain	<u>284.44</u>
	34407.61
Depreciation	say <u>10,000.00</u>
	£44,407.61
Deficit for year to 30th June 1977.	£8652.90

OUTFLOW OF FUNDS FROM THE FALKLANDS

Since the subject of money flowing out of the country instead of being invested within it seems to be uppermost in everyone's mind, this paper has been prepared rather hurriedly for consideration by Ex-Co before the departure of His Excellency the Governor and the Hon. Financial Secretary. In general the points made have broad validity, but the writer has not in the time available been able to complete the detailed research necessary before precise figures can, for example, be put to the proposed changes in company taxation.

Basically one can most painlessly keep money in the country by creating better investment opportunities within the country than exist outside and letting nature take its course. This may involve creating the right fiscal structure to attract entrepreneurs, but also going out to seek potential candidates for ventures such as fish-drying, rather than sitting back waiting for them to come.

There are a number of fiscal measures which ought to be considered and these have been dealt with under 10 separate headings below, each being given a separate sheet. Some of these carry the writer's recommendation, others are for possible future consideration, and some are rejected altogether.

The timing for those which are recommended is now, rather than, say, in next year's budget, if the proposals put forward are found acceptable. In most cases the drafting requirements are simple and no extra staff would be required to operate what is proposed.

The proposals fall under the following headings -

1. Exchange Control
2. Investment Premium
3. Tax Haven
4. Land Taxation and Estate Duty
5. Returnable Development Levy
6. Withholding Tax on Dividends
7. Company Taxation
8. Depreciation Allowances
9. Placing of Company Shares on Local Market
10. Housing Bonds

1. Exchange Control

The simplest and crudest method of keeping money in the country is prohibit people from sending it out by exchange control regulations. On the other hand it is usual to allow non-residents complete freedom from control as they are not likely to put money in the country unless they are assured they may if they wish take it out again, inter alia, they must be assured that there will be no hindrance on their remitting dividends, rent, interest etc on their investments.

Introduction of such control for the first time results in unfairness in many cases, e.g., the person who has substantial overseas investments is normally allowed to keep them provided he brings all the income back home, but the person who has been ploughing back his profits into improving his farm and was about to start diversifying his investments overseas would be 'caught'.

Modifications of exchange control can be made to allow approved investments overseas - otherwise, if there are no investment opportunities locally, savings would probably all find their way into the Government savings bank so that only Government would have overseas investments.

It need hardly be said that where a country has a big export trade so that exporters have funds overseas, which they will anyway need to some extent to pay bills overseas, it is difficult to check compliance with exchange control legislation.

The healthiest situation is that in which there is no exchange control at all, and this is much preferred by international investors. At the present time, when the Falklands are poised for a leap forward in development, it would make little sense to bring in exchange control and to do so could in no way be recommended.

2. Investment Premium

A feature of exchange control as adopted in Britain is that residents are permitted to invest overseas without specific authority but must pay the "investment premium" if they wish so to invest.

The system acts as a disincentive to overseas investment compared with investment at home because it costs substantially more to do so. The premium varies according to supply and demand and the value of the £ against the \$; at present it is about 40%.

The effect is that to invest in say American share yielding, say, 7%, the investor would have to pay another 40% (i.e. £140 for £100 worth of shares) reducing his yield to 5%, whereas a comparable British share would be yielding about 10% and be free of premium. The investor thus has to set aside £40 for every £100 that he invests, and the £40 brings him in no interest at all.

On finally selling the shares the investor receives back his premium at the rate prevailing at the time of sale but has to give up 25% of it as a kind of tax.

To introduce such a system here would, of course create anomalies between those who have already invested heavily overseas compared with those who now wished to do so. While perhaps a less onerous system should not be entirely ruled out for the future - for example, if reasonable opportunities for local investment were created and there were no takers (see papers 9 & 10) some small premium might be contemplated, but this could certainly not be recommended in present circumstances.

3. Tax Haven

The fact that the Falklands are a tax haven seems to have gone unnoticed by the cognoscenti and it would seem to be useful to advertise the fact discreetly at least in professional journals. Argentina already lists the Islas Malvinas as part of its Tierra del Fuego - Antarctica Free Trade Zone.

The position is that we can at the moment offer -

1. Duty-free zone - no customs duties or sales taxes on imports (except alcohol and tobacco). No tax of any kind on fuels.
2. Income tax exemptions and abatements available for new enterprises.
3. Low (or zero) estate duty for residents - see paper 4.
4. No exchange control. Currency freely convertible into sterling.
5. Good telex, telephone, and cable overseas links, weekly air mail, freight, and passenger services.
6. Free peat for space heating, warm air drying etc.
7. Good harbours, internal shipping and air services.
8. English language spoken throughout islands, industrious population.

Proposals will be made at a later stage that we seriously consider reducing personal income tax rates and replace the lost revenue from other sources, at least for a trial period of 2 or 3 years to see if entrepreneurs are attracted, and to add this point to the list of "haven" attractions. The proposal will, of course, be controversial but it seems not too difficult to put the rates up again if need be, and if there is no response to that particular incentive!

There are many other facets of tax havenry which will be investigated to see if they could be usefully adopted - some will undoubtedly be non-starters for one reason or another.

In the meantime what we already have seems to be fairly impressive and would surely be worthy of wider publicity. It is recommended that action be taken along these lines.

4. Land Taxation and Estate Duty

The Falklands are unique in that most of the property is owned by "absentee" persons and companies. It is slightly unfair to use the word "absentee" since it usually has bad connotations - in fact our absentees generally have a strong local presence and some of the farms in overseas ownership are extremely well maintained, but the word is used for convenience.

Although there is no great difficulty about collecting income tax on incomes arising to absentees, this is about the only tax they pay and there are limits beyond which it is not reasonable to raise tax rates. In fact the modern fiscal concept is to have several different types of taxation so that one is not limited for additional revenue to increasingly penal rates on a single tax.

Two types of tax which do not presently impinge on absentees are land tax (because we do not have one) and estate duty (because most assets of absentees are held as shares in companies, which are immortal).

Land tax is a legitimate source of revenue to Government, particularly where, as in the Falklands almost all land is privately owned. To impose such a tax in an orthodox way would entail completely disproportionate expenditure on cadastral surveys, detailed valuations by teams of experts - who would, however, face almost insuperable problems in valuing wide areas of wet peatlands over which there would be immense difficulties merely in walking about with markers and theodolites etc.

In the end the true value of land, whether capital, or annual values were adopted, is what it can produce, and fortunately there are statistics for each farm, at least of the size and value of the wool clip. In an outstandingly bad year, one farm might have exceptional losses of animals through a quirk of the weather, whereas another similar farm, the value of which has been determined to be about the same might have had better luck. No system of ordinary land taxation could allow for such happenings and such a system would therefore have to incorporate allowances for exceptional losses, but could not on the other hand incorporate any form of surcharge for an exceptionally good year!

The solution is thus to base the land tax simply on the actual out-turn for the fiscal year and this is best measured by the wool crop. Initially, therefore one would suggest a levy of say 2p per kilo of wool production, not as an export levy, but as a handy form of calculating the annual value of the land.

It is important to note that since an absentee is virtually exempt from paying estate duty, which is payable by residents roughly once every generation on assets which pass from parents to children - i.e. roughly once every 25 years. Some countries compensate for this by levying a substitute estate or inheritance tax on companies, but such a course could lead to undesirable complications, and the simplest course is to instal an ordinary land tax on all land (Stanley already has its rates on buildings) which would in practice compensate for lack of estate duty, and is in any event a reasonable tax for Government to levy.

Estate duty remains an extremely unfair tax in Falklands conditions since it is in effect levied almost exclusively on those who not only work here all their lives, but remain here in retirement, generally doing very useful work even after retirement, and finally die here. The person who works here all his life but then retires overseas is also a very worthy person, but he does not usually pay our estate duty, but someone else's. Since the land tax suggested would be payable on all land including that of those who live and die here it would seem to be appropriate to abolish estate duty altogether, using the annual land tax as a complete substitute and removing what is at present a very serious and unremediable anomaly.

4. Land Taxation and Estate Duty (cont.)

If the land tax is agreed, it would be best if it were collected in instalments and the simplest course would be to collect it on the occasions when wool is exported and the matter be left to the Customs Department to deal with. As indicated above, there may well be occasions when the price of wool drops very low so that farms make losses and accordingly, at least in theory have no "value" to assess. In such circumstances it would be appropriate to abate the tax and the draft attached provides for abatement in case of hardship.

Assuming again that the tax is agreed, and be it noted that as a substitute estate tax it is securing in the country money which ought to come to Government (but does not at present) in larger lumps at the intervals at which property normally passes from generation to generation, it would be best if it could have effect before the next shipment of wool leaves the country.

There will be time in future to consider whether there should be further refinements, i.e. whether there should be consideration as to the number of cattle, pigs, etc, held on farms but in the short term it is surely best to have regard to wool as a measure of value. Since we are short of meat other than mutton this course could be justified as an incentive to those who presently diversify their husbandry to provide the odd steak and gammon.

These proposals are, therefore, put forward for consideration as to immediate implementation, i.e.

- (a) abolition of estate duty;
- (b) introduction of land tax (incorporating substitute estate duty) calculated by rule of thumb at a rate of 2p per kilo of wool produced from each land-holding.

5. Returnable Development Levy

Over a long period of years, visiting experts have deplored the fact that insufficient is "ploughed back" into Falklands agriculture to improve the productivity of the land. Even at this stage of the writer's visit it seems clear that one cannot generalise, and that in some cases a very great deal has been done to improve holdings, while in others little has been done.

While it is sometimes said that there is little improvement that can be done which would show an economic return on the investment, the fact that some enlightened owners have succeeded indicates that something is possible.

It has presumably long been evident that fencing to enclose pasture must be desirable, if not for rotational grazing in the ordinary sense (which would require rather rich pasture to be economic), then at least the preservation of a reserve of good pasture on to which ewes can be turned at lambing times.

In addition, roads (on which a separate paper will be prepared at a later stage) must be prime desideratum, and since roads would mostly traverse private property, land-owners must have a major interest in their provision.

It would be invidious to propose a measure which made no distinction between the good, better, and best owners (one assumes there are no bad ones) and thus what seems to be appropriate is the type of provision routinely used in plantation economies where the state takes an interest in the planters, from the humblest peasant to the wealthiest landowner, having the best possible plantation material in the ground to produce the tea, cocoa, coffee, coconuts, palm oil, rubber, sisal, etc. Productivity in all these fields has increased several times over the last few decades and a contributory factor has been the technique of levying a "replanting cess" or charge on existing production which is refundable against the cost of replanting old areas with new material. The best cultivators are entitled to an almost immediate refund, while the others qualify when they undertake the work - meantime Government, or a quasi-Government holds the money.

What is suggested here is that a levy based on production is made, payable for convenience on export of wool. At the time of export only an estimate can usually be made of the ultimate price to be obtained, but the contribution can be adjusted to actual as soon as the proceeds per kilo are quantified.

If a levy were made of 5% of the gross price per kilo between 75p and 100p and of 10% of the excess of that price over 100p the yield on an export of 2m. Kilos at a gross price of 120p would be £65,000 payable, of course in 3 or more instalments over the year. This is not a great sum of money but at least that amount of "improvement" or "ploughing back" would be assured and there might be a catalytic effect.

Presumably the levy would start with the wool going out on the January ship and any capital improvements carried out from 1st January 1977 would qualify for refund against a farm's accumulated levy. Any excess over the levy would be carried forward to set against future levies.

The question of just what types of expenditure should rank for refund would be a matter for decision. One could start by suggesting that only new capital outlays (not running repairs and renewals) should qualify, and the categories might include -

- (a) new fencing
- (b) new road or track making
- (c) planting of shelter belts and wind-breaks
- (d) improvement of camp abattoirs and shearing sheds.

Administration of the levy and refunds would be routine, anyone incurring the approved expenditure would get his money back. From those who chose not to incur the expense the levy would be useful to Government in that the interest could be used for public revenue purposes.

6. Withholding Tax on Dividends

Britain has a withholding tax on dividends, in effect of 35%, which is normally reduced to 15% in double taxation agreements. There is no such tax in the Falklands in respect of local companies which pay dividends to shareholders overseas.

Where such a tax is imposed it is usual for the country in which the shareholder resides to allow relief for the foreign tax withheld. The arrangements are usually on a mutual basis, each country allowing relief for the other's tax.

It is proposed that we introduce a withholding tax of 15% in respect of companies resident in the Falkland Islands and renegotiate the Double Taxation Agreement with Britain so that Britain would allow relief to UK-resident shareholders. The net effect of this would be that we should collect some extra tax but that UK-resident shareholders would not be any worse off.

The proposal suggested is largely technical, should be non-controversial, but would result in further money being kept in the Falklands for development, i.e. additional revenue to the Treasury.

If the matter can be agreed in principle, immediate steps will be taken to set in train the moves by which the D.T. Agreement can be amended (see also paper no. 8). These things take time and the sooner one starts on them the sooner the result may be achieved.

This particular matter ties in with some other proposals which will be made in due course regarding changes in company tax, but it stands on its own as far as a decision is concerned.

7. Company Taxation

The rate of tax on company profits in the Falklands has recently been increased to 45%, but this is still lower than the 52% rate applied in the UK. Accordingly, profits made in the Falklands are first taxed here, and then, when they accrue to companies based in the UK are taxed there again a further 7%.

It is proposed that our own company rate should be increased to the same level as that in the UK forthwith. This should be a non-controversial move since the companies concerned would be no worse off, though the whole of the tax on profits made here would then, appropriately enough, be payable to our Treasury.

The matter has already been discussed tentatively with the managing director of the Falkland Islands Company in London who raised no objection to the concept, but in fact said he would prefer to pay his company's tax wholly to the Falklands Treasury.

There is, however, one rider to the proposal. The UK has more generous capital allowances in some respects than we do and it would be necessary to match the British reliefs to keep matters in step.

The UK has the same interests as the Falklands in encouraging her companies to invest in more machinery etc. and the subject of these allowances is dealt with in a separate brief paper (no. 8).

The other way in which we are out of step with the UK in company taxation is that there is relief for smaller companies in that profits up to £30,000 are taxed at 42% instead of 52% (the rate is lower than our own proposed 45%). There is marginal relief (up to profits of £50,000) so that the rate is less than 52% up to the higher limit of £50,000.

The writer is proposing to introduce proposals at a later date that the Falklands also should have a 2-rate system, possibly at a 30% rate over a smaller range of profits. but more data will be needed before this proposal can be firmed. One ought not to differentiate between foreign and local companies in taxation, and the 2-rate system would apply to both categories equally, but would favour most the small companies and these perhaps would include more local companies.

It would be enough at the present stage if agreement in principle could be given to the proposal, details and final submission could then be made at a later date.

8. Depreciation Allowances

Depreciation allowances of varying levels of "generosity" have in the last few decades traditionally been designed (and constantly re-designed) to encourage capital investment in new and improved or up-dated equipment and plant.

The "ultimate" in Britain was the granting of allowances totalling more than 100% of the expenditure actually incurred, and this was followed by cash grants towards the cost of all kinds of machinery including ships, and of £1,000 per room towards the cost of new hotels.

Currently, in Britain and elsewhere the vogue is for "free depreciation" which expression means that the taxpayer is free to decide whether or not he wishes to claim the whole cost of new machinery etc. in the first year or spread allowances over a longer period.

It is allowances of this type we will have to match if we adopt (as it is considered that we should) the UK system of company taxation (or at least material parts of it).

This should not cause us to flinch because to encourage capital expenditure in this way is one of the ways in which to achieve the desired goal of having more money ploughed back into the economy.

It is not proposed to go into details at this stage, merely to suggest that agreement in principle be given so that detailed proposals can be brought forward later.

9. Placing of Company Shares on Local Market

It is understood that, under pressure from the Foreign Office, the Falklands Islands Company tried to market 54% of the shares in a local company, to be called Falkland Islands Traders Ltd. in about 1972/73, but found no takers. The public's comment was apparently that the details were too vague and no-one knew what sort of yield would arise. The whole of the Stanley side of the FIC business except the office was to be hived off including the West Store and the jetty, so that it seems with hindsight that this would have been a reasonable investment.

Another comment from a member of the public was that residents here prefer to spread their investments, rather than have all their eggs in one basket. Hence they would prefer to invest in British gilts and equities rather than locally. Instead of talking about possible "double standards" in the matter, it would be preferable to assume that the "placing" was not done very competently. In other countries where shares are marketed for the first time the public are usually given the very fullest possible information about the prospects and history of the trading venture.

At any rate, if it is desired that there should be greater local investment, the public ought to have an opportunity to participate and it is suggested that attempts ought to be made to induce some of our private companies, or the overseas companies to try a fresh issue, only this time much better prepared than perhaps was the previous one.

10. Housing Bonds

While on the one hand one hears that there are no avenues for local investment in the Falklands, one also hears that there is a great urge for people to build their own houses, but they are held back for lack of finance.

These circumstances seem to offer an obvious situation for bringing the two classes of people together.

The trouble is that the rate of return on overseas investment is higher than the sort of return one could expect to obtain by lending money on private mortgage, which is one way the private sector could settle the problem without Government intervention.

At present the position seems to be that £25,000 has been set aside for lending out to house purchasers at 7% - the sum will presumably soon be exhausted.

One can hardly contemplate raising public money to relend at 7% and the lowest possible rate at which mortgage money could be provided would surely be 8% unless one could obtain money for the purpose from the CDC at subsidised rates.

Housing is obviously of supreme importance in giving workers a stake in the country so that they will be more likely to stay on instead of emigrating.

The lender, however, also has to be considered, and presumably, since we already allow 5% tax-free on money "at call" in the Savings Bank, the lowest rate for longer term money that one could expect to find takers would be 6% tax-free.

One must not borrow short and lend long, and therefore the simplest device would be to borrow and lend for exactly the same term. (There are many other ways of dealing with the matter, but what is proposed below is the simplest possible scheme which could be put into effect more or less instantly).

If 5-year Housing Bonds at 6% tax-free were put out - with no redemption clause - one could be sure of the money being available for the whole 5 years, and if this were lent on at 8% on 5-year mortgage, there would probably be takers (once it is clear there is to be no more 7% money) although one could hardly recommend the scheme as other than a loss-maker for Government if one takes into account the tax relief. The scheme would have even more chance of success if the present allocation of funds were not lent out at 7% but used to help get the new scheme underway.

Since some people would want money for longer than 5 years one should offer at the same time 10-year mortgages against 10-year Bonds, making the respective interest rates 6½% tax-free to the lender, and charging 8½% to the borrower.

It would be reasonable to expect some contribution from the companies trading here but the tax-free factor would be of no interest to the overseas companies because they would pay UK tax on the interest despite the exemption here. Accordingly there would have to be two types of Bond, the 6% (6½%) tax-free for residents in the Falklands and, say, an 8% (8½%) non-tax-free for non-residents to subscribe to.

Since the Bonds would hardly be freely marketable, no great expense need be incurred in obtaining security paper to print them on. Each bond would bear a number entered in manuscript and the name and address of the owner with the numbers of his bonds recorded in a register at the Treasury. Any transfers of ownership could only be done by amending the Register upon production of the bond by the parties to any sale or transfer.

In marketing the bonds care would have to be taken to try to ensure that new money was subscribed, not merely that some people transferred some of the money in their savings accounts to a bond to obtain more interest, although of course, some such transfers would surely take place.

