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ECONOMIC SURVEY OF THE FALKLAND ISLANDS

Chairman: The Rt. Hon. Lord Shackleton K.G. P.C. O.B.E.

VOLUME 2 of 2

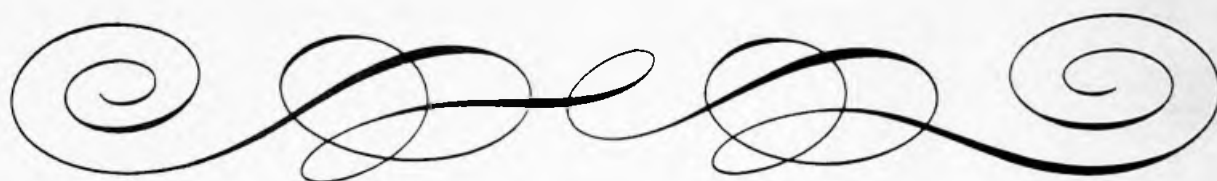
STRATEGY, RECOMMENDATIONS & IMPLEMENTATION

JULY 1976

**Presented to the Secretary of State
for Foreign and Commonwealth Affairs**



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FALKLAND ISLANDS SURVEY - VOLUME TWO

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CHAPTER 17 - SUMMARY OF VOLUME ONE

The following paragraphs set out the main points and conclusions of the Survey presented in Volume I of this Report.

POPULATION

1. Population of the Falklands Islands at the end of 1975 is estimated at 1,905, having declined from a peak of almost 2,400 in 1931. Since 1953 the numbers in Stanley have remained relatively stable, whereas the Camp population has declined by one fifth.
2. The indigenous 'kelper' stock has been declining and now represents about 77 per cent of the population.
3. Age structure - the Camp has a very low proportion of old people, in contrast to Stanley where the proportion is rising.
4. Sex structure - there is a significant surplus of males throughout the age range 15-64. In West Falkland in 1972, the age group 20-29 was made up of 71 per cent males and 29 per cent females.
5. Marriage - doubtless because of the sex structure there are very few single women (8 per cent in 1972). The divorce rate is remarkably high.
6. The birth rate has consistently exceeded the death rate. However, the major factor contributing to this situation is the large number of contract workers who have children in the Islands and subsequently leave.
7. Migration - census figures up to 1972 indicate that the rate of emigration has been rising over the previous 30 years. It is now probably higher than in any area of the Scottish Highlands and Islands and is most marked among the young and females.
8. Retirement - most Camp workers and their wives retire of necessity to Stanley. Some Falklanders also retire to the UK.

THE ECONOMY

1. The Falkland Islands' economy is overwhelmingly dependent on the production of wool for export (largely to the UK). In consequence both total community income and government revenue fluctuate with movements in world wool prices.
2. Imports - the Islands are totally dependent upon imports for consumption items and capital goods. Imports are very largely from the UK - partly as a consequence of the external common carrier freight system.

The balance of trade has been strongly favourable, in some years more than others, largely depending on wool prices. The UK directly benefits from this favourable trade balance.

3. Flow of funds - over the last 30 years, outflow of funds to the UK, largely in the form of company dividends, undistributed profits (post Falklands tax) has considerably exceeded inflow made up of UK aid and Falkland Islands government income from their UK investments. The UK Exchequer gains substantial amounts from taxes on this outflow, particularly on dividends and profits. Very approximately it is estimated that for the 1951-73 period, the UK direct tax take (about £1.9 million) on dividends and profits from this flow of funds was approximately twice the amount given as UK aid to the Falklands (£0.9 million)¹.

4. Structure - the ownership of farms in the Falkland Islands is largely in the hands of private companies, usually registered in the UK. Of these the Falkland Islands Company is in a dominant position, owning nearly half of the land and providing a number of other services to the Islands, including external and internal shipping, and a large part of retail and wholesale trade.

The Falkland Islands Company is now owned by a UK group, principally involved in fuel distribution - Charrington, Gardner and Lockett.

5. This concentration of economic power in a company based outside the Falkland Islands could be a constraint on and give rise to difficulties in the long term development of the Islands.

¹ No allowance, however, has been made for "defence" costs (see Vol 1 p.29).

6. Investment - current levels of investment in agriculture are generally only sufficient to maintain existing assets; in consequence agricultural output has remained static with no base being provided for future earnings growth. Political uncertainties may be a factor, but more important is the likelihood of higher returns on investments in the UK. Investment opportunities in the Falklands with good prospects of a satisfactory return particularly in agriculture, do not obviously present themselves (see Agriculture page 6).

UK aid funds do not compensate for this lack of investment in primary economic activities, since they are directed to infrastructure development and current expenditure of the Falkland Islands government. Clearly fiscal policy must be aimed at further encouragement of investment and staunching of the outflow of funds from the Islands. Investment from the UK by individuals could be discouraged to some extent by UK exchange control regulations, though these regulations are unlikely to deter a UK company wishing to invest.

7. Income - real incomes generally remained stagnant over the last ten years. Average earnings per income earner appear to be 10 per cent lower in real terms than in the UK.

8. Local savings institutions open to Islanders are restricted, and returns in Government savings are poor (3.5 per cent tax free). In effect, small savings have been taxed in recent years as FIG has retained for its own use the surplus between earnings on investments of savers' funds and deposit interest paid. As a result remittance of private savings overseas is increasing.

9. Labour - the supply of and demand for labour is finely balanced, the labour shortage of 1975 being caused by the permanent airfield construction requirements.

SOCIAL ASPECTS

Though various social groupings can be identified, it is among the plain indigenous population as a whole, whether in Camp or in Stanley, that potential must be sought if there is to be an appropriate response to development opportunities. The indigenous people have obvious qualities, including honesty, versatility, and hardiness; but there is also an apparent lack of enterprise at individual and community levels, and a degree of acceptance of the status quo which verges on apathy. Although they clearly have greater commitment to the Islands than most of the short-stay contract personnel from the UK, their sense of identity reflects mainly their strong awareness of British origins, and they do not yet seem to have evolved the kind of distinctive local culture which could foster self-confidence. While this situation is partly attributable to factors such as the settlement pattern, the diversity of the origins in the UK, and insecurity caused by the sovereignty dispute, the most important single cause, in our view, is the pattern of dependence.

In the Camp there is dependence of people on the companies and resident owners or managers in various important respects. Though this pattern can be convenient and even comfortable in material terms, it does not encourage initiative. There are signs of dissatisfaction with the situation, especially among the young, and this is a factor in migration from the Camp. In Stanley there is dependence on the Falkland Islands Government, on the Falkland Islands Company, and - for various social and other activities - on the expatriate community. For all there is dependence on Britain for most goods, for defence and for identity. There has been little opportunity for individuals to acquire their own stake in the economy of the Islands - most notably a stake in the land. In all, the pattern of dependence seems largely responsible for the inertia evident in certain areas of economic, social and political affairs.

It would be wrong, however, to conclude that the people of the Islands are generally dispirited and divided. There is a striking vigour of feeling over the sovereignty issue, which has undoubtedly been a uniting factor. Yet the nature of local groupings does tend to inhibit social cohesion in other respects.

Much of the population clearly recognises the special attractions of life in the Islands, but also points to deficiencies quite apart from dependence. Some difficulties will of course be only slowly overcome - notably in the Camp in regard to the effects of isolation and the imbalanced structure of the population. Camp settlements are in fact distinctly unusual communities, in view of the departure of their people on retirement - an effect of the tied house system which often causes problems of adjustment - and the presence of a significant proportion of people (many of them single males) on short-term contract from the UK.

Stanley also has its social problems, reflected for instance in the need for a full-time professional to complement existing efforts, largely voluntary, in most of the conventional fields of social work, such as care of the elderly, family problems, delinquency and alcoholism. However, through such provision and with improvements in education and recreational facilities, the quality of life in the islands could be much improved.

AGRICULTURE

This sector currently accounts for over 90 per cent of the Islands' primary economic output, of which wool production is overwhelmingly the main activity.

1. Farming in the Falkland Islands

Resources and conditions. The agricultural environment of the Falklands is harsh compared to the UK. The generally poor soil fertility, low soil temperatures, light rainfall and the wind give rise to a short and not very strong growing season. The low soil temperature renders the improvement of the acid soil through the general use of nitrogenous fertilisers uneconomic. Lime application though beneficial, has also proved to be uneconomic. Much of the terrain is hilly (more so in the West Falklands with rocky outcrops on the higher ground). The vegetation (there are very few trees on the Islands) consists mostly of whitegrass on peaty soil and diddle-dee areas. These areas of low nutritional vegetation are interspersed with better grazing areas in the valleys and along the coastal belts. The coastal belts and the small islands are usually the most productive areas largely due to the beneficial manuring by sea birds and penguins, and the greater abundance of tussac.

Farms. There are 36 farms in the Falklands. These are mostly large (ranging from about 5,000-400,000 acres) and are better described as ranches. The vast majority are company owned (27, accounting for 95 per cent of the acreage) with the majority of shareholders non-residents of the farms; indeed most of the shareholders live outside the Falkland Islands. The Falkland Islands Company, with 8 farms, accounts for 46 per cent of total acreage. The settlements are situated near water, which provides the main means of external transport. Most of the farm buildings, shearing sheds etc. are in reasonable condition. However, some major reinvestment will be required before long on several farms - particularly with respect to the jetties. Farms are generally well equipped with machinery and vehicles, their isolation making the renting or sharing of machinery difficult.

Farming methods. Sheep management in the Falklands is conducted on a basis of minimum pastoral supervision. Given the conditions, this method is probably best suited to the Falklands, though the policy of withdrawal of shepherds from living in outhouses and from one or two of the small islands, while contributing to labour productivity, carries disadvantages in that the potential of the prime breeding areas is not always fully exploited.

1 There is a general need for training and improving the skills of the workforce. In terms of labour organisation, the recent establishment of two contract shearing gangs has contributed to improvements in labour productivity. Most sheep in the Falklands are crossbreeds, containing a considerable proportion of Romney blood, with mixtures of finer wool types, particularly Corriedale. These are well suited to the environment of the Islands and chiefly produce wool in the 48-60's quality range (see Wool Marketing below).

2 Diversification. Beef, pork, milk, butter and vegetables are produced entirely for domestic consumption. Even so, the quantity produced falls well below the Islands' needs. Imports of canned and dried milk, dairy products and vegetables are quite substantial. Commercial horticulture with one exception, is practically non-existent, though this is undoubtedly inhibited by a regular means of freight transport to Stanley. Establishing an adequate milk/vegetable production and supply for Stanley is a matter for early consideration in agricultural development.

Previous attempts at canning and freezing of mutton for export failed after only a few years. The latter project, financed by the Commonwealth Development Corporation failed principally because the supply and quality of meat came a long way short of previous estimates. In recent years the sale of skins has been the only export product from slaughtered stock but the returns from this activity have been small.

2. Performance

Stocking and wool production. Sheep population in 1974-1975 was 644,014 on a total agricultural acreage of 2,901,500. This compares with a figure of

over 800,000 at the turn of the century. Over the last 10 years wool yield per acre has changed very little overall, nor has the number of sheep shorn. Indeed, taking the average of the last five years, there has been a slight fall in the number of sheep shorn per acre since 1920 from 0.20 to 0.19, although this fall has been counteracted by some increased fleece weight due to improvements in breed.

There are however wide differences in level of performance between regions, the superiority of the small islands over East and West Falkland being the most marked. The variations can chiefly be attributed to differences in soil fertility and herbage quality, though the variations within regions would indicate that there is scope for improvement in wool yield per acre, in some cases up to 30 per cent.

This situation has long been recognised by farm managers in the Islands, many of whom have made attempts, not always successful, to improve pasture, chiefly by rotavating and reseeding with imported grass. The most systematic and concerted efforts on two of the three West Falkland farms in the last 15-20 years produced results justifying the investment in pasture improvement. The fact is that, until the work and report of the Davies team in 1971 recommending the setting up of the Grasslands Trials Unit (now established with a staff of 3) methods of raising the standard of pasture were largely uncoordinated within the Islands, and based mainly on the result of experience elsewhere in the world.

Labour productivity and costs. While there have been increases in labour productivity over the last ten years, the high proportion of wages/salaries as a proportion of total costs and the variations in wool output per man between farms would suggest that there is further scope still. However, comparisons of labour productivity cannot always be drawn too closely, and any shedding of labour through machinery investment or use of outside contract labour must be undertaken with regard to the long term implications for both the farms, and the economy, of a smaller workforce.

Financial results. Over the period 1970-74 on a sample of 11 farms gross margins overall varied from 0.3 to 53.6 pence/kg of wool, representing as a percentage on gross income a change from 1 per cent to 48 per cent. The

average compares well with returns from hill farming in the UK. The overriding factor influencing this enormous variation is the wool price, though the difference of profitability between farms in the same regions would again seem to confirm that there is scope for improvement. There have undoubtedly been considerable variations between farms in the amount of past investment. The variation in wool price obscures a general deterioration in the financial performance of farms over the last 2-3 years. This deterioration largely arises because increases in productivity have not kept pace with imported price inflation.

3. Scope for improvement

Grasslands. Any long term improvement in the primary sector of the Islands' economy must come from additional wool yield per acre which in turn must be based on increased nutritional benefit from the grasslands. At the moment the genetic potential of the sheep is not being realised in terms of fertility potential, lamb survival rate, and their development and growth. In the absence of other sources of feed, the improvement can only come from improved pasture and better control of pasture utilisation. Undoubtedly investment in grasslands improvement with the proper guidance will result in some increases in yield. It is not possible to define the scope for improvement until more research has been carried out under the auspices of the GTU - the aspect of pasture utilisation is particularly important in an area of low soil fertility, and has tended to be neglected.

Apart from the further scope for raising labour productivity, and the potential for some increased diversification in agriculture (largely to meet local requirements for fresh produce) there is one other area deserving attention.

Wider ownership of land. The most obvious and direct benefit from this would be the social as well as the long term economic desirability of increasing the stake Islanders would have in their own future. It was clear from our visit that there was considerable interest among both farm employees and some managers in achieving a move in this direction, and particularly in creating individual farm units on some of the smaller islands. It is also possible that economic benefits could result, particularly if the creation of small units took place in conjunction with other diversifying activities, both agricultural and tourist.

4. Wool marketing

Falklands' wool, which falls in the quality range 48's to 60's with the bulk of 56's has a number of characteristics, which make it generally attractive for high-quality knitwear and for blending with other wools for a wide range of hosiery and woollen products. The wool is able to command premium prices.

The wool clip is transported from the farms to Stanley by sea and the total Island wool clip is shipped to UK by charter vessel. FIC acts as agent for independent farms in arranging transport, storage, insurance and sale. Since public auction of the wool clip was abandoned in 1972, sale has been by means of a telephone auction (which is cheaper to run) held by FIC. The system is normally initiated by one of the two main buyers (there is now also a third minor buyer) and competitive bids are secured from the buyers for specific offerings of wool by farms. As with the public auction, there tends to be built-in protection from competition for existing buyers.

FIC, as the main producer and transport and sales agent, now has a 50 per cent holding in the main buyer, David Smith & Co. DSC purchased an average of 70 per cent of the 1972/73 to 1974/75 wool clips, and processes (on a commission basis) about three-quarters of each clip for woollen yarn and a quarter for worsted yarn. This acquisition by FIC has resulted in greater market knowledge but as yet no brand name or trade mark which would help promote Falklands wool as a speciality with a distinct brand image has been established.

Apart from this, the main deficiencies of the present system are the absence of any means for cushioning producers from market fluctuations, and the lack of market information for independent farms.

AQUATIC RESOURCES

Deepwater resources

The seas surrounding the Falkland Islands and dependencies are rich in marine life but currently there is little fishing on a commercial scale and none which uses the Falkland Islands as a base. Hydrographically two major zones can be distinguished, the mineral rich and highly productive Antarctic Surface Waters, south of the Antarctic Convergence and once the world's main whaling ground, and the less rich but still productive Sub-Antarctic Surface Waters north of the Convergence.

The offshore waters of the Falklands and Burdwood bank undoubtedly support a large population of fish of which hake, croaker, blue whiting and Falkland herring are likely to be the most important. The yield of blue whiting alone might prove to be equivalent to the current total of the UK's fish landings.

The open oceans south of the Antarctic Convergence now support enormous unexploited stocks of krill (shrimp-like animals) once the principal diet of whales. Giant squid are also to be found in large numbers. Estimates of sustainable yield of krill substantially exceed total current world fish landings and much of the commercial fisheries exploration in the region, by Soviet, Japanese and now German vessels, has been directed to this resource.

Coastal Of the biological resources in the coastal zones round the Falklands, possibly three have potential for development. Large quantities of kelp (giant seaweed) exist around the Falklands coastline which are suitable for the production of alginates. The Falkland Islands Government has granted an exclusive but renewable exploitation licence to Alginate Industries Limited which has demonstrated the feasibility of harvesting the kelp and producing washed, dried and milled kelp in Stanley. A plant of an initial capacity of 5,000 tons of dried kelp, employing about 35 people, is envisaged but the resource is estimated to be sufficient for an output ten times larger. Investment by AIL has been deferred because of political uncertainties and a levelling out of demand for alginates during the worldwide recession.

There is an abundance of crustacea and molluscs, potentially the most interesting commercially being a large spider crab (Centolla), but little is known of the numbers and location of this or any of the other species. There are also fish; mullet and smelt are caught on a spare time basis but sustainable yields, distribution, catch rates and market acceptability require investigation before commercial exploitation can be justified.

Freshwater. The freshwaters of the Falklands are confined to a few small acidic rivers supporting two indigenous species. These have been largely supplanted by brown trout, which feed mainly in marine waters, and are currently caught for food and sport. They represent a minor tourist attraction. There may be scope for introducing salmon which would improve the tourist potential and represent a method of harvesting the abundant small pelagic fish in Falklands coastal waters.

South Georgia. The coastal and inshore seas of South Georgia support, after devastating over-exploitation, growing populations of elephant and fur seals of which the population of the former is in theory already of sufficient size to justify cropping for oil.

Development

Constraints. There is a reasonable likelihood that any exploitation of the offshore fisheries described could most economically be exploited from a Falkland Islands base. Development of commercial fisheries in the area would face a number of constraints, including the absence of a developed harbour, the need to build any processing and storage facilities required, inadequate local infrastructure, and, for the purposes of a fishing industry, poor external travel links. The situation is further complicated by the present unsettled state of the Law of the Sea in relation to fisheries jurisdiction of coastal states and the dispute over that jurisdiction in the S.W. Atlantic, and the absence of a system of fisheries management and protection for the area.

Research programme. Before any decisions are made on the economic feasibility of full-scale commercial exploitation of any fish, and on the type of fishing system or systems most appropriate to the location and scale of resources, further research and a programme of exploratory fishing must be carried out. If successful, this would need to be followed by pilot schemes for both offshore and coastal fisheries, covering both fishing and processing. In the course of setting up a pilot project, various studies into investment needs, infrastructure provision, market development, and management systems would have to be undertaken.

Costs and benefits. Both the exploratory fishing and support for the pilot scheme (and necessary development of harbours and infrastructure) would almost certainly have to be financed by government. This could involve expenditure of around £1-£1.5 million at the exploratory stage, and a pilot fisheries project at a later date would probably require financial support in the region of £6 million.

The potential fisheries development that could follow would probably be on a scale larger than any other existing or likely potential economic activity in the Falklands. It would undoubtedly confirm the long term economic future of the Islands and raise overall standards of living. It should also be recognised that fisheries development would irreversibly change the size and constitution of the population many of whom would not originate from the UK.

MINERAL RESOURCES

Land

Although no thorough geological survey has been undertaken since Baker (1924), on the known evidence, and conclusions of geologists to date, there would seem little prospect of mineral (including hydrocarbon) deposits being found in commercial quantities on the Falkland Islands.

Offshore

The current knowledge of the sedimentary basins (in which hydrocarbons are formed) in the Falkland Islands is based on what is known of the geology of the area, limited seismic survey work undertaken by the Griffiths team from Birmingham University (1971-74) and some six-fold computer processing of the data. The size of the discovered oil and gas reserves in the adjoining Magellan sedimentary basin of Tierra de Fuego also adds a certain perspective on the prospects for the area. The Griffiths work identified the Malvinas Basin west of the Falklands as the most promising area for hydrocarbon deposits in view of the thickness of the sediments there, comparable with some areas of the northern North Sea. More extensive and systematic seismic survey work will be required before it is possible to pronounce on whether the geological structures are such as to allow significant quantities of hydrocarbons to be trapped. Drilling would then be necessary to prove these deposits.

Commercial potential

First, it should be said that no offshore developments are likely to take place without a form of cooperation agreement with Argentina. Large quantities of oil would need to be discovered offshore in order to justify its commercial exploitation, given the water depths and weather conditions of the area, which have certain similarities to those of the northern North Sea. If natural gas were discovered, which, on the basis of present knowledge of the geology of the area and experience in Tierra Del Fuego seems at least as likely as that of oil, the reserves would have to be enormous to justify commercial development because of the very high

liquefaction storage and transportation costs of liquefied natural gas. Movement in exploration/production costs of oil in deep offshore areas relative to the price of oil over the next ten years is unlikely to improve the commercial returns of exploration/production.

In spite of this less than optimistic view of the potential of the area, it is likely that a positive response from oil companies would ensue if political barriers to exploration/production in the area were removed and licenses offered.

Impact of development

The exploration phase of offshore oil developments would have relatively small impact on the Falkland Islands, and it is quite possible that a base for servicing drilling rigs and ships would in the event never be established on the Islands. The extent of impact in any case could be controlled by agreement with the companies.

The production stage, if oil were discovered in commercial quantities, would not necessarily involve a pipeline being laid to the Falklands, and there would be several advantages in building a pipeline terminal on the Argentinian mainland. If distances from land and water depths were such as to make laying a pipeline to the Falklands, the most economic method of evacuating oil from the discovered field, the impact in terms of population influx, both in the construction phase and the permanent operating phase would literally be overwhelming in relation to the size of the existing population. This could more than double and it would impose severe strains on the existing economy of the Islands.

In environmental terms, there is no reason to believe that offshore oil exploration and production could not be carried out safely in this area, provided proper controls and standards were established and maintained.

INDUSTRY AND CRAFTS

Currently handicrafts are the only form of secondary economic activity in the Islands. Crafts are organised by the Stanley-based Falkland Islands Home Industries which supplies materials and markets products made by part-time workers both in Camp and Stanley. Hand-made knitwear predominates, and sales are mainly to visiting tourists.

5 Diversified industrial development is constrained by the very small local market, the underdeveloped local transport network, the infrequent and costly transport to export markets and, to some extent, by the absence of trained manpower. Of the few prospects, most are for small-scale developments geared initially to sales to a local tourist market. Prospects include expansion of knitwear production, sheepskin rug manufacture and hand weaving as well as other handicrafts for the souvenir market. Nevertheless, the establishment of an expanded knitwear industry, which would need to export distinctive, high quality products, deserves careful consideration. Such an industry could create additional full and part-time employment, especially for women. A more detailed feasibility study would be required to assess such factors as market potential, financial returns and labour availability.

Introduction of wool scouring and spinning would seem unlikely because of the large capital investment required.

6 Pickling of sheepskins for export is a possible agricultural diversification. The prospects for mutton freezing though would not seem very encouraging. In 1953 a Commonwealth Development Corporation financed mutton freezing project failed after only 3 years, largely due to gross overestimates of the quantity and quality of carcasses, that would be forthcoming. The difficulties and cost of transporting sufficient numbers of live sheep to a centralised slaughterhouse and freezer should not be underestimated. However, we consider that the scope for mutton exports should be re-examined in the next 2-3 years.

1 There seems little prospect for meat canning, including pet food, mainly because of the cost of transporting tin plated steel long distances both to the Islands and back to the market.

TRANSPORT AND COMMUNICATIONS

1. External Air Service

The Argentine State air line (LADE) runs a weekly service of turbo-prop F27's from Comodoro Rivadavia in Patagonia. All air passengers flying into the Falklands from Argentina have to possess a "white" card. Currently the aircraft land on a temporary airstrip built by the Argentine government, but this summer the permanent airfield will be completed at a cost of about £4.5 million, paid for by a grant from the British government.

The length of the permanent runway (1,250 metres) is only sufficient to accommodate about 40 per cent of short/medium haul aircraft now operating in the major southern countries of South America. These percentages will decrease further as propeller driven aircraft are gradually replaced by jets with larger carrying capacity. The extension of the runway by 900 metres to accommodate short/medium haul jets would cost in the region of £3-4 million. This is likely to be somewhat greater than the present value of additional income that might be generated by the extension, via additional economic activity. However, without the extension, there is a strong doubt whether tourism, fisheries and other diversifying industrial potential would be realised to any significant degree.

2. External Sea Freight

The service is operated by a wholly owned subsidiary of FIC and consists of four visits/year in a 500 ton common carrier cargo vessel. This transports goods/mail on each of the journeys to the Islands, and the wool clip on three of the return trips.

The service is generally satisfactory and is charged at comparatively favourable rates. Its infrequency means that the supply of fresh goods is limited and it could inhibit any future exports from small diversified industries.

3. Internal air service

This currently consists of two 6-seater Beaver float planes which operate on an on-call taxi basis around the Islands. The service is excellent, though the planes are seven years old and will need to be replaced in the next 2-3 years. The factors determining the optimum replacement by number and type of aircraft will include the possible increased economic activity and alternative transport development in the Islands.

4. Coastal shipping

9. This consists of a single 221 ton cargo vessel, the "Monsunen", which collects the wool clip, and other agricultural produce, from the settlements and distributes goods and mail from Stanley. The ship is chartered to a company, Coastal Shipping Ltd. (a consortium of farm owners) by a joint venture of 50 per cent Jeppeson Heaton and 50 per cent Falklands Island Company. The ship is operated on a non-profit making basis and managed for a fee by FIC. Though there are some defects in the ship's design, which sometimes limits the cargo, and infrequency of service constrains the ability of farms to supply fresh produce to Stanley, the service is generally satisfactory. Possible expansion of coastal shipping to service future potential tourist needs and to overcome the problem of the infrequency of the arrival of the "Monsunen thereby stimulating agricultural diversification, could come in the form of a small high speed, adaptable craft. One possibility might be the Rotork, a flat bottomed vessel which can transport passengers or freight and has a speed of 20 knots.

5. Roads

The only made-up roads in the Islands are in Stanley, and these are generally in a poor state of repair. The main factors delaying their repair are lack of available labour (currently involved in building the permanent runway) and little experience in the work.

Travel about the camp is made in landrovers over mostly unsurfaced camp tracks. The terrain is rough, often on peat. Travel is therefore

uncomfortable and slow, (especially in winter when the landrovers are frequently "bogged"), and expensive, with vehicle operating costs averaging about 33 p/mile.

In spite of this, vehicle ownership is high and the need to travel for both agricultural and social reasons is strong. Building a network of low cost roads in the Islands would be expensive - to connect Stanley to Darwin/Goose Green, the largest Camp settlement on East Falkland, by 60 miles of the cheapest road possible is estimated to cost in the region of £1 million. It is very doubtful whether this could be justified on economic grounds, through advantages to be gained by reduced vehicle operating costs, increased labour productivity and stimulation of diversified agricultural and tourist development (though such gains would indeed follow any road building in the Falklands). There is, however, a very strong social need for roads. Not only would these improve the quality of life, but by reducing the feeling of dependence within settlements, and increasing social contact and recreational options, there would be long term economic benefits to the Islands by virtue of a greater enterprise amongst the Camp dwellers. In the short term, this development would help to stem emigration. Before any decisions were taken, it would be necessary for a road engineer, familiar with low cost roads, to carry out an on-site survey of likely construction and maintenance costs.

6. Telecommunications and broadcasting

Internal telecommunications include the telephone system, telegraph service and the radio telephone network, all of which are the responsibility of the Posts and Telecommunications Department, as is the broadcasting service. External telecommunications are now the responsibility of the Cable and Wireless Company.

The internal telephone system in Stanley appears to be effective and efficient, but the Camp lines are much less satisfactory because circuits are often noisy and ringing is difficult. West Falkland has no link with Stanley, except by radio telephone (R/T). The R/T is immensely important to the Camp, but the present system is old and unsatisfactory and should be replaced by new equipment.

The Falklands Broadcasting Service operates for about 5 hours each day.

12 While much has been done to improve the technical aspects of broadcasting over the past few years, there exists a good deal of scope to improve the choice and content of programmes. In particular, there is room for more locally-produced programmes and greater participation by local people.

DISTRIBUTION AND SERVICES

1. Wholesale/retail activities

The Falkland Islands Trading Company, FIC's subsidiary based on Stanley, operates the main wholesaling activity on the Islands. Its management is integrated with that of FIC's West Store which accounts for almost two thirds of retail sales in Stanley and just under half all retail turnover. There are twenty other retail establishments in Stanley, mainly family or one-man businesses with general stores predominating. Most farm settlements have company-owned and run stores. Features of retailing include the lack of specialisation, excess trading capacity, high average stock levels and slow stock turn round, retail mark-ups which are not excessive, and heavy dependence on the UK for most supplies.

2. Fuel

Locally-dug peat is the main fuel in the domestic sector being substantially cheaper per useful therm than all alternatives. In Stanley, peat cutting is largely carried out by householders using spare time family labour, although there is some contract cutting. In the Camp, farm companies cut and supply peat free from beds which are usually close to the settlement. There is a growing demand for propane gas for its convenience of use.

In the non-domestic sectors nearly all fuels used are oil products, gas oil/ diesel currently accounting for around 90 per cent of consumption on a tonnage basis. FIC is the distributor and retailer for most fuels, purchasing gas oil/diesel from the Admiralty tanks at Stanley. Gasoline, avgas and kerosene are purchased in drums on an ad hoc basis at Mar del Plata from YPF, the Argentinian State oil company.

In 1974 an agreement with YPF was signed for the supply of the Islands' oil product requirements but its implementation was deferred pending agreement on the peso/£ exchange rate (now agreed) and construction (an HMG responsibility) of means of pumping fuel to the shore tankage constructed by YPF under the agreement. Although its terms are monopolistic, supply from any oil company to such a remote and small consumer would effectively be on similar

terms (with the exception of lubricants). The main attractions are the favourable prices offered particularly for diesel the Island's main fuel, which is some 50 per cent less than that likely to be made available from alternative sources.

3. Catering

13 Hotel and catering facilities in Stanley comprise one small hotel, several boarding houses, and a number of bars and clubs. They are just adequate for current tourist, business and local needs but additional hotel and restaurant facilities would be required for an expanding tourist industry, and any developments in other sectors.

4. Contracting and other services

There are five contractors supplying building, painting and general handy-man services but only two are significant employers of labour. Much house repair and maintenance is carried out by owner-occupiers in Stanley whereas, in the Camp, much of the work is done by farm companies.

There are a number of other service businesses including haulage, vehicle maintenance, dress-making, and hair dressing. All are one-man and sometimes part-time operations. As with most other service activities, there is some scope for improving their quality and range and there will be a need for this, assuming the economy expands.

5. Banking

Rudimentary banking facilities are provided by FIC and Estate Louis Williams (current account and remittances) and the FIG Treasury (cheque-cashing, remittances and foreign exchange facilities). There is a lack of overdraft and loan facilities and a need for financial advice. FIG run a Savings Bank which currently pays 3½ per cent on deposits.

TOURISM

1. Until 1976 tourist visitors to the Islands have been largely confined to those arriving off cruise ships from Argentina who spend usually one day in Stanley sight seeing and taking advantage of a favourable exchange rate¹ to buy luxury goods. These accounted for about 5,500 visitors in 1975. Visitors by air amounted to 350 in the same year and a similar number came on a vessel catering specifically for tourists interested in wildlife. This ship, the "Lindblad Explorer" visits places of interest in the Islands.
2. The Falklands have a specialist tourist attraction for those interested in wild life (the penguin rookeries are the chief attraction) and in remote unspoilt scenery.
3. The longer term potential is estimated to be of the order of 5,000 tourists per year, a large proportion of whom would be from North and South America. This represents an estimated gross value added, retained in the Islands, of £340,000/annum, which would be a 14 per cent increase in GDP.
4. The main constraints to tourism are:
 - a. The lack of hotel/chalet accommodation and other tourist facilities;
 - b. the absence of promotion;
 - c. the limited length of the permanent aircraft runway (now nearing completion).

The requirement for air passengers flying into the Islands from Argentina to possess a "white" card is also a deterrent, in that it can sometimes take weeks to acquire.

5. No major private investment in tourism is likely until the runway has been lengthened to accommodate short/medium haul jets which can fly direct from major South American cities. This would also provide the necessary convenient last leg for international charter companies.

¹ The advantage was largely removed in mid 1975 with the change in the exchange rate basis. Cruise ship arrivals have since fallen off.

6. Tourist development need not conflict with wild life interests if it is properly controlled and monitored. This would largely be achieved through the number and type of facilities built.

PUBLIC UTILITIES

Power supplies

1. Stanley electricity is supplied from a power station installed in 1972 with a generating capacity of 1276 Kw and space for further expansion if required. Peak generating capacity requirement in winter is about 745 Kw with a minimum of around 200 Kw. There is currently enough generating capacity to absorb a 30 per cent increase in electricity demand over present levels.

2. Domestic electricity demand in Stanley has shown a marked degree of price elasticity in the last 5 years (during which period the tariff has been increased from 1.87 to 4.34 pence per unit) and these fluctuations in demand have caused considerable variations in generating efficiency. The Government might wish to consider the possibility of setting up a 2-part tariff system in which the domestic consumer is charged at a slightly lower rate than others.

3. Each farm settlement has its own central electricity generating unit, usually powered by diesel engines. There are limitations on electricity use and charges vary from 5p per unit on FIC farms to around 16-17p in some settlements.

15 4. Medium sized wind power generators (6-10 kilowatts) have real economic potential in the context of electricity supply in camp settlements. When linked to a battery system and with back-up diesel generating capacity, the additional capital cost of a wind generator is justified so long as the price of diesel fuel is not below 18-25p/gallon. The current price is 41p/gallon - under the YPF fuel supply agreement this could fall to 27p/gallon on current Argentinian retail prices.

5. Energisers of electric fences could be economically charged by means of a 200 watt wind generator.

Water supply

1. Stanley receives a piped water supply from a filtration plant which

treats and purifies raw water abstracted from the Moody Brook. There appears to be rising trend in water consumption (which has averaged about 60,000 gallons a day over the past three years) but the filtration plant has a maximum capacity of about 141,000 gallons a day which is ample for Stanley's present population needs and industrial demands. While the plant could conceivably cope with a doubling of present demand, some possible future industrial developments (in alginates and fisheries, for example) would necessitate the development of a larger source than the Moody Brook.

16 2. Organisational changes could improve the manning of the filtration plant which is currently unsatisfactory

17 3. While all the direct costs of water supply are recouped as part of Stanley rates, no account is taken of depreciation and overhead expenses.

18 4. The filtration plant has not been well maintained and some capital expenditure is required.

5. The main sources of water in the Camp settlements are natural springs which are readily available in most locations. The water is usually pumped by windpower to a storage tank whence it is gravity fed through a pipeline to the houses and farm buildings. Few settlements have water supply problems and even where these occur (e.g. in the most westerly parts of the islands in exceptionally dry conditions) new supply sources are usually available for development.

SOCIAL INFRASTRUCTURE

Medical services

The Government-run medical services comprise a non-specialist service based on a hospital in Stanley, supplemented by referral of serious and specialist cases to hospitals in Argentina. The service is adequately staffed, except in the case of trained nurses; staff/patient ratio is high relative to the UK, but this is necessary because of the scattered nature of the Camp community. Costs per head of the population are not high compared with peripheral areas in Scotland. Charges are made for most services but revenue only accounts for about one seventh of costs and the practice results in inequities and anomalies and time-consuming administrative work.

19 The service to Stanley seems to be good but there is scope for improving provision for the Camp, particularly by more frequent routine visits by doctors, the appointment of a health visitor/district nurse and by providing accommodation for Camp visitors attending the hospital for treatment.

Housing

Owner-occupied housing predominates in Stanley and only a few, poorer quality, government houses are rented to needy inhabitants. In the Camp virtually all houses are company-owned and occupied rent-free by employees: there is no provision for purchase or rent by employees on their retirement. Housing standards are generally reasonable, although there are exceptions both in Stanley and in the Camp, particularly of some camp bunk houses (for single men). Most houses are of wooden construction and a high proportion are old.

Government makes available loans for house purchase (in Stanley) on favourable terms, but the annual allocation is small. Currently the supply/demand situation in Stanley appears to be in equilibrium but it could be easily upset, particularly if any economic development takes place. Additional land for building is available in Stanley. In the Camp housing supply exceeds demand as most farms are operating with smaller labour forces.

Education

Education on the Islands is provided by the Education Department for 314 children up to 15 years of age. The service comprises a junior and a senior school at Stanley (149 pupils), a junior and a senior school at Darwin (61 pupils) which has boarding facilities for Camp children (104), and, for children of primary school age in other Camp settlements, a combination of full-time schools in the larger settlements, staffed by book-keeper/teachers, and of part-time teaching by itinerant teachers in the small settlements.

Education beyond 'O' level is a parental responsibility, and is only available overseas (in Argentina, UK and Uruguay). There were 39 children being educated overseas at the end of 1975, 25 of whom were in Argentina. The Argentine government offers an unlimited number of scholarships - currently 22 out of the 25 children being educated in Argentina are being supported by such scholarships. FIG also provides financial assistance for the overseas education of a further seven children.

20 Education was the subject of a report by Mr. Bell in 1973 but most of its recommendations have yet to be implemented. Of major importance to the future social and economic development of the Falklands is the need to establish full secondary education up to 'O' level on the Islands. There are several unsatisfactory features of both primary and secondary education in the Camp and in some respects in Stanley. Improvements are also needed in policy-making and administrative processes and the provision of facilities for vocational training and adult education.

Social Security

Social Security on the Islands is narrow in range and limited to old age pensions, family allowances (very low levels of benefit) and charitable relief (awarded on an individual basis to cases of hardship). In the past pension benefits have tended to lag behind price rises.

Recreational facilities and activities

In the Camp recreational facilities are limited essentially to halls of varying size and quality. They are mainly company-provided, offering a

limited range of functions such as film shows and dances, but in certain of the larger settlements contributions by the community have permitted well-equipped social clubs offering widely varied activities. Outdoor sports and race meetings are also held in certain settlements. Finance is a limiting factor and there is no system of public grants for leisure facilities as in the UK. Individual hobbies and interests are varied, both indoors and outdoors, but there is a general lack of stimulus due notably to isolation. This seems particularly to affect the women, several of whom have asked about the feasibility of television in the Islands. Social drinking is a popular activity, particularly among single men at weekends.

21 In Stanley provision is more extensive but not wholly adequate. Some facilities at present lacking might be added to those existing, e.g. in the Town Hall, to provide a multi-purpose community centre. Ostensibly there are numerous clubs and associations, but relatively few of these are flourishing and leadership is lacking among local people. Recreational needs of youth are not fully met, despite various efforts to help. Lack of provision is felt keenly by the young and is a factor in emigration. There is no official responsible for youth and community work, as is usual in local government in the UK.

GOVERNMENT FINANCES AND PUBLIC SERVICES

1. In terms of recurrent revenue and expenditure the Falkland Islands have traditionally been self-supporting, but revenues and expenditures have recently been quite finely balanced. Expenditure at current prices has increased from year to year while revenue has tended to fluctuate as the market price of wool has affected company profits.
2. The most important single source of Government revenue is the taxation of companies and individuals. Customs duties are also significant. Other major sources of revenue are the charges made by the Government for some of the services provided to the community. These include internal aviation; electricity, water supply and municipal services to Stanley; posts and telecommunications (philatelic income being a valuable revenue source).
3. The most costly services are Education, Medical and Public works.
4. The civil service may seem large and costly in relation to the size of the population but it has a wide range of services to administer.
5. The Falklands rely considerably on UK aid funds to meet their infrastructure expenditure needs. £273,600 was spend out of local funds on development in the period 1965/66 to 1974/75 but in the same period £1,459,600 was distributed from aid funds. Recent major projects have been the electricity power station, agricultural fencing subsidy and, currently, the permanent airfield. UK aid since 1973 is normally given in the form of "soft" loans but the airfield is being funded by outright grant (£4.2 million or more). The Falklands have also received increasing amounts of bilateral technical assistance from the UK (£405,500 between 1966 and 1975).
6. It is likely that the Falklands Government will experience difficulty in balancing its budget in future years (a deficit of £270,000 or so is expected in 1976/77), except in years when healthy farm profits are reflected in enhanced Government tax revenues. The deficit could be even further amplified in the initial years of any development expenditure - see Chapter 20.

7. There is not a great deal that can be done in the short term to increase FIG revenue. However, there are the following possibilities:

- 22
- a modest increase in personal tax rates;
 - an increase of about 5 per cent in the rate of company taxation;
 - selective increases in import duties;
 - the adoption of a more aggressive philatelic marketing policy;
 - increases in charges for services.

SECTION III

CHAPTER 18 - A STRATEGY FOR DEVELOPMENT

From our survey of the Islands' human and economic resources and their development potential (summarised in Chapter 17), certain overall conclusions need to be highlighted.

Key conclusions

1. Based as it is on the ranching of sheep for wool production, supported by a service sector of just sufficient size to provide basic services, the Islands economy is static but showing an underlying tendency to decline. The Falklands' current development plan is insufficient in terms of capital and current expenditure to reverse this situation.
2. The structure of the economy, in particular the ownership of most farms by UK and not Falkland Island registered companies, and the absence of institutions such as banks, together with the lack of clearly identified investment opportunities, has led to a continual drain of investment funds from the Islands, mainly to the UK. The economy thus lacks the basis for growth and its capital stock tends to be run down.
3. Gradual emigration has persisted for at least the last forty years; there was a resultant decline in population, which was temporarily halted in 1975 due to the commencement of work on the permanent airport. The decline is likely to continue, and possibly accelerate, without the emergence of economic opportunities and some social changes.
4. Although versatile, the population tends to show a marked degree of dependence - on government, on employers, and on the UK - which has largely contributed to the rather low levels of confidence and enterprise.
5. The pattern of economic activity and settlement history has brought about an unusually fragmented social structure. This and other factors have slowed the evolution of a distinctive local culture.

6. Material standards of living appear to have been maintained over the last ten years largely due to price indexed wage agreements. However, features of the social structure and inadequate provision in the social services, including education, detract from the total quality of life.

7. Wool output has been static over the last 10 years. Because of low wool prices in the early part of this period, the real value of the industry's earnings fell until 1971 but rose in 1972, 1973 and particularly 1974, only to fall sharply in 1975. Over the medium to long-term there is no reason to think that prices for the Falkland wool crop can be expected to do more than hold their own in real terms relative to world prices of manufactured goods

8. Since the Second World War, investment in sheep farming has been primarily related to improvements in housing and other amenities, and measures to improve labour productivity. Investment in pasture improvement has tended to be intermittent and scattered, partly because methods of achievement and potential returns have not been clearly identified.

9. The physical infrastructure is minimal and much of the capital stock in buildings, jetties and equipment is ageing.

10. The limited physical infrastructure and external transport communications are a constraint to future potential development.

11. The government machine lacks certain types of knowledge and experience to be able to improve the range and quality of services; nor is it geared to the requirements of development. The current size of the economy prevents any significant self-financing expansion of the civil service.

12. Over the life of the Colony the UK exchequer benefit from tax on funds transferred to UK has almost certainly exceeded the value of UK Government Aid.

13 The Islands and its Dependencies are in close proximity to what may be the world's largest untapped sources of protein. In the light of world population trends this resource is almost certainly going to be exploited, at least in the long-term despite distances from major centres of consumption. Much of the fishing grounds of the S.W. Atlantic would fall within a Falkland Islands and Dependencies Exclusive Economic Zone and might be most economically exploited and managed from the Islands.

14. Oil and gas resources may exist offshore. Geological and preliminary seismic evidence is such that there is certain to be interest in exploration by oil companies provided that agreement is reached with Argentina over a form of cooperation for exploration/production. An extensive exploration programme is necessary before the existence of oil/gas reserves can be proven, and to establish whether or not they exist in the very large quantities necessary to be commercially exploitable.

15. In certain circumstances, development of either of the two previous potential resources could have a very marked social and economic impact on the islands.

16. There is a more immediate potential for the development of the following:

- tourism;
- alginates (from one of the world's largest sources) when world demand recovers.

Both of these could contribute substantially to the Islands' economy

17. There is also a potential for the development of:

- dairy and horticultural production, to meet local market demand (including ship supply) and possibly other agricultural diversification;
- small industry and craft development, e.g. knitwear;
- services, as the population and local market expands.

OBJECTIVES

Considering the terms of reference of the study and in the light of the conclusions above, the following major socio-economic objectives should guide the design and selection of a strategy for the future development of the Islands.

1. To at least maintain material standards of living relative to the UK, and to increase the range of economic activity based on the Islands' resources without causing serious disruption to the present quality of life in the Islands.
2. To reduce individual Islanders' level of social and economic dependence by creating opportunities for more of them to secure a stake in the economy.
3. To bring about greater social cohesion and, especially for the young, an improvement in the quality of life.
4. To reverse the static/declining trend of agricultural yields and provide the basis for a secure future for the sheep farming industry.
5. By diversification of the economy, to increase the range and number of employment opportunities, particularly for school leavers.
6. To husband the natural resources of the Islands and the surrounding waters so as to strike a balance between long term economic objectives, the requirements of new industries, and the unique natural environment of the Falklands with its important contribution to the world's wild life resources.
7. To allow a wide cross-section of the Islanders to influence the scale and rate of economic and social development.

BASIS AND ISSUES FOR A DEVELOPMENT STRATEGY

In many areas identified for potential development, it has not been possible to prepare economic arguments for formulation of a development strategy founded on firm financial costs and benefits. This situation arises partly out of the absence of data but also because of the uncertainties inherent in the developments themselves. This section discusses the costs and benefits, wherever possible, and the issues related to the major areas and institutions identified for potential development so as to provide the basis for an economic strategy.

1. Agriculture

Because of its overwhelming importance to the economy of the Falklands both currently and for the foreseeable future, agriculture must be the first priority in development.

- a. Benefit. As concluded in Chapter 5 on Agriculture, it is necessary for an extensive and systematic grassland research programme to define the scope, means and cost of pasture improvement and its utilisation before the long term economic potential of agriculture through improved yield per acre can be known. Based on the previous 5 year average wool price of 65p/kilo, even 10 per cent increase in yield would represent an increase in gross income to the Islands of about £150,000/annum.
- b. Costs. The current main Grassland Trials Unit, financed by HMG under Technical Assistance is costing about £25,000/year. The relative size of the potential economic benefit argues the expansion of this research programme in order to ensure future agricultural investment is not only forthcoming but cost effective.
- c. Small farm units. The direct social and possible economic benefits of such a change in the agricultural structure have been argued in the sub-section dealing with this topic in Chapter 6. In the context of strategy objectives, this development provides an important means of reducing social and economic dependence and provides a new tier of agricultural job opportunities.

Seeking to diversify the agricultural industry, not only brings with it important social benefits in terms of providing a greater variety of employment opportunity, but also raises the material quality of life through greater provision of fresh produce.

The effective follow through and coordination of activities of the GTU in the farms themselves, the guiding of productivity improvements etc, the development of diversified activities and a properly controlled creation of small farm units should all contribute to the success of agricultural development. The support and thrust for this must essentially come from an enlarged capability in FIG principally in the form of a full time Agricultural Officer and clerical support. The cost of this enlargement (see Chapter 20 under Finance for Development) should eventually be more than met by additional FIG revenues from higher agricultural incomes.

2. Tourism

Benefit. Tourism presents itself as an immediate opportunity for economic expansion and diversification. In the long term, it would possibly provide up to £340,000/year (14 per cent increase on current GDP) increase in retained gross income for the Islands.

Finance. Some major UK aid expenditure will be needed to improve external transport links (the major element being an extension of the permanent airfield at a roughly estimated cost of £3-£4 million) and to develop the internal infrastructure before it is possible to realise any significant expansion in tourist potential. Once this is accomplished it should be the strategy of FIG to secure maximum private investment in accommodation and other tourist facilities. It is important that local financial involvement should be encouraged.

Control. This will be needed in both the rate and type of development most particularly to ensure that conservation interests are preserved in achieving the correct balance between these and economic development. Advice within this field eventually will be an item of recurrent government expenditure - in the initial stages this would need to be made available under Technical Aid from the UK.

3. Alginates

This represents a most beneficial potential development to the Islands economy in terms of the rate and scale of its development - worth in its initial development some £200,000 per annum in added value to the economy. Again, conservation control will be necessary to ensure the kelp resources are properly farmed.

4. Other industries/crafts

While unlikely to make a major contribution in financial terms to the Islands' economy, there should be maximum encouragement of interest and investment in these diversifying industries. They represent potential opportunities for local investment and would create new and diversified employment opportunities in the Falkland Islands.

This seems to be an area where local private funds eventually should provide the necessary capital investment. However, this will need to be stimulated and supported by local loans and/or grants. In most cases, further study - probably paid for under UK technical aid - would be needed to assess the feasibility of different projects, particularly attention being paid to the marketing aspects. Marketing is likely to prove the greatest constraint to development and this should be borne in mind in the preparation of future development plans of the Falklands.

Items 1-4 above represent areas of development for the Falklands which are potentially realisable in the short to medium term. To varying degrees they will need initial expenditure in research programmes, improved external communications and local infrastructure, and further feasibility study. The next two development items, fisheries and oil, are both long term and more speculative - and oil in particular is subject to international political agreements being reached. Fully realised both would be of much larger scale than any existing or other envisaged economic activity for the Falklands. They are likely to involve little or no direct local investment.

Their occurrence could, but not necessarily, radically change the nature and size of the Falkland Islands community as well as the economy.

5. Fisheries

If exploitation of this potentially very large resource is to take place, an HMG financed exploratory fishing programme is almost certainly a prerequisite to any development; and if successful this would need to be followed by further investment in development of harbours and infrastructure within the Falklands, presuming the development was to take place there. These two stages might cost on a 1976 constant price basis, anything in the range of £1-1.5 million and £5-7 million respectively over a period of years, the exact timing depending on the resource potential and the development of markets.

The economic criteria for spending on this scale, so as to set up a fishing industry for southern ocean resources based in the Falklands, do not lie only in the context of the future development of the Islands' economy. Nevertheless this should rank as a major item in the long term development of the Islands economy since fisheries (whether coastal or deep sea) has the best long term prospects of the few large new potential economic developments. Taking development items 1-4 above, it is not known exactly to what extent they may eventually increase the size of the Falklands economy; a fisheries development would underwrite the future self-sustaining economic viability of the Falkland Islands.

6. Oil/natural gas

Regardless of political constraints this potential activity must be regarded as speculative. Though the exploration phase of developments could bring new economic revenue and activity on a scale which would be beneficial to the Islands, the installation of production facilities, if they occurred, would be of questionable long term value to the Islands. The impact of these developments is discussed in Chapter 8. It is our conclusion that development of offshore oil and gas should not form a major plank of any new economic strategy for the Islands.

7. External communications and physical infrastructure

Development in these areas should be considered as:

- a. being a prerequisite for any significant diversified economic activity, particularly in the case of the airport but to some extent also in the case of roads;
- b. achieving vital and significant improvements in the fabric of social life of the community;
- c. achieving the objectives of stemming emigration and encouraging immigration;
- d. enhancing the quality of the human resources of the Islands and thereby their long term economic viability.

The finance for this development must almost certainly come in the form of aid from the UK, the investment to be considered as a cornerstone of any future economic plan for the Falklands.

8. Social infrastructure and services

Improvements in health, education and welfare will play a vital part in achieving the stated social and economic objectives of the Falklands. In the long term, capital expenditures apart, their cost should be met from increased revenue to the Falklands' government. However, until such time as overall gross income of the Islands' economy increases, some of the recurrent expenditure will need to be met from increased UK aid.

9. Government

- a. Government machinery. The enlargement of Government, both in regard to its role and its capability, is essential if the stated social and economic objectives for development are to be achieved. The proposed structure and role is discussed in Chapter 20.

As with social services/infrastructure, the cost of increased staff of the Government will initially have to be met from UK aid, though this should not be a permanent drain on the UK exchequer and the aim must be eventually

to cover the cost of additional staff through increased FIG revenue from a more developed economy. As the provision of services increases, so it is reasonable to raise the level of income tax.

For local Government, creation of representation at Stanley and settlement community level should be considered as a means to foster enterprise and reduce the dependence of Falklanders, as well as providing a training ground for Exco/Legco members.

23 b. Involvement in commercial activities. As part of its strategy, the Government should consider carefully whether it should increase its involvement in certain areas such as coastal shipping (to ensure community interests are served in the future development of the economy) and possibly withdraw from others (such as road contracting).

10. Financial institutions

The creation of a financial institution in Stanley, capable of harnessing local savings and providing a source of funds for local investment, is vital in achieving social and economic objectives. It will also serve as a loan source for farmers wishing to buy land and machinery for small farm units. The following Chapter discusses the means of creating and the possible form of such a financial institution.

The practical implications for pursuing this strategy are explored in the next two chapters.

CHAPTER 19 - DEVELOPMENT PROGRAMME AND POLICY

INTRODUCTION

Our recommended policy and development programme for each sector of the Falklands' economy are set out below. In each case, the programme is concerned primarily with the short to medium term period although many of the changes recommended are thought likely to have consequences extending over a much longer period. The same applies, with perhaps greater force, to the validity of the policy recommendations. In some sectors further studies are recommended in order to identify more closely the scope for development.

We consider that implementation of a programme on the lines described would require some major changes in government administration which are outlined in Chapter 20, Implementation and Finance. These changes would also have constitutional implications. Of particular importance are the proposals to create the two new posts of Chief Executive, and Development Officer who would between them have roles of initiation, negotiation, guidance, and coordination for all forms of development in the future.

AGRICULTURE

Policy

26 In the light of our conclusions and the recommended strategy we recommend that Government's policy towards the agricultural sector should be one of encouraging investment in improvements and diversification, and providing the necessary governmental organisation to assist and guide the future development of agriculture in the Falkland Islands.

Programme

25 We recommend the following programme for the development of agricultural production.

1. Extension of the Grassland Trials Unit (GTU). The GTU, currently comprising four scientific officers, including the leader, has the following objectives:

- a. to carry out investigations on vegetation and livestock production with the object of establishing the basic data necessary for the improvement of farming systems in the Falkland Islands.
- b. From these data and from other known data to develop systems which are more efficient biologically and economically.
- c. To study the habits of the Upland and Brent geese with special reference to the effect that they have on the sheep farming industry, but bearing in mind conservationist factors and the value of the geese as a tourist attraction and a source of food.

The scale and efficiency of the operations should be extended by the addition of one scientific officer, one technical assistant and one general farm assistant. Its activities should be widened to include research on other environments including a diddle dee area in West Falkland, as well as the work on white grass areas on East Falkland.

We recommend that, following the appointment of a veterinary officer in the GTU, its objectives should be modified and extended to include the following:

- to develop an appropriate system of milk production which can be used to provide Stanley with an adequate milk supply;
- to advise on the upgrading of the present cattle population and to investigate methods of both beef and mutton/lamb production with regard to local demand and, in conjunction with any industrial feasibility study (see later in this Chapter under Industry), the possibility of processing for exports;
- to provide general advice as required on intensive forms of animal production (poultry meat, eggs, pork and veal);
- the assessment of the practicability of the sheep breeding scheme (outlined in the Davies Report) and the development of a fleece assessment scheme, (a specific task to be undertaken by the additional scientific officer).

With this expansion and provision of additional facilities, the Unit should be able to carry out its prime tasks more speedily and effectively, while at the same time providing specialist agricultural advice to the farm community. Immediate use of Crown Lands near Stanley for animal experimentation and development of milking systems would also be desirable.

26 2. Establishment of an Agricultural Department. Existing government duties with regard to agriculture are carried out mainly by the Harbour Master. We recommend the establishment of an Agricultural Department. This would take place in phases, but when fully developed should comprise two closely integrated divisions namely, Administration and Research/Development.

The main functions of the Department would include:

- administration of ordinances and regulations relating to agriculture;

- administration of Crown lands;
- provision of information;
- operation of advisory services;
- research and development.

The first phase should involve only the appointment of an Agricultural Officer with experience in farm business management, who would carry out the basic administrative functions (including statistical returns) and also the duties outlined below in connection with smaller farm development

Phase two should commence if and when the Grasslands Trials Unit produces sufficiently clear indications that worthwhile improvements in output can be economically achieved, the Department then taking over research activities from the GTU.

Our suggestions for staffing the Department are as follows:

Department Head

Agricultural Development Officer

Administration and Advisory Division

Agricultural Officer

1 Advisory Assistant

Research and Development Division

2 Scientific Officers

1 Field Technician

1 Laboratory Assistant

1 General Farm Assistant.

Although not centrally located, Stanley should clearly be the main base for the Department of Agriculture because of the availability of Crown land, the need for contact with government, (including the medical services regarding public health), the need to supervise quarantine arrangements and import controls, and access to reliable and efficient general and technical services. The Research and Development Division should eventually take over

the GTU land near Stanley and possibly acquire additional areas for the production of animals suitable for research (this would remove the behavioural problems that arise when camp sheep are used for experimentation).

27 3. Smaller Farm Development. A programme of development would need finance on favourable terms, agricultural and financial advice and overall management and direction. In the Falklands' context, the development envisaged may well be regarded as being radical in nature, though we attach considerable importance to it. For this reason, and the fact that there are several uncertainties associated with the optimum pace and location of establishing small farm units, a positive but careful approach is called for; at least in the first instance, a separate government agency to promote the developments does not seem justified.

The programme proposed is outlined below.

- a. Preliminary investigation. The Agricultural Officer would assess the extent of interest in acquiring a smaller farm, both amongst existing and departed Islanders; the kind of tenancy and financial arrangements likely to be required, including terms and conditions of leases and loans; the likely supply and conditions of availability of land from farming companies; and the management and advice service, including land survey, and legislative changes (if any) likely to be necessary. (There would of course be no obstacles to privately negotiated tenancy or sale arrangements in the meantime.)
- b. Assistance in farm acquisition. There would need to be a partnership between Government and the lending agency (see Investment and Banking), as well as the parties, which might operate on the following lines:
 - The Agricultural Officer would maintain a register of islands and other areas which farm companies would in principle be prepared to lease or sell.

- Potential tenants and owner-occupiers would discuss possible schemes with the Agricultural Officer and then be introduced to the Company's Manager, Secretary or other agent for arrangement of inspection, conduct of any surveys or valuations and preliminary discussions.
 - The applicant for loan finance would produce a scheme for consideration by the Bank which would then be passed to the Agricultural officer with recommendations over government-financed concessionary terms (for example partial interest waiver, grant element, low rates of interest) from the Development Assistance Fund.
 - If approved by Government, the way would be open for commercial negotiation between the applicant and the farm company over which either party could seek advice from the Agricultural Officer.
 - The sale or lease would be completed and the mortgage loan agreement or tenancy agreement signed permitting purchase and/or investment in new/or improved facilities and stock purchase etc. Protection of both the banks and the public interest would suggest the need for a good husbandry clause.
- c. Provision of continuing advice. Advice would be vital to new tenants and owner occupiers in development and operational stages and should be available from the Agricultural Officer on request.
- d. Monitoring of progress. Monitoring of progress is considered to be desirable, both for the Government and the lending agency to enable decisions to be taken about, expanding, reducing, phasing out or modifying aspects of the programme.
- 28 4. Efficiency improvement grants. The practice of Government encouragement of fencing by grant payment, in the interest of efficient labour utilisation and working conditions, should be continued, but farms should

be required to submit schemes for consideration, and approval by the Agricultural Officer before the grant is made to ensure that the plans are well-designed for the intended purpose.

29 5. Assistance in land improvement. Ditching is important for maintaining and improving soil fertility and can also assist in reducing sheep losses. There would seem to be scope for independent contract working in ditching and other areas of land improvement.

30 6. Farm management, accounts and financial data. Efforts by the Farm Management Association to secure standardised methods of recording financial data are to be commended and merit support from the Sheep Owners Association and encouragement from the Agricultural Officer. Consideration should also be given to regular seminars on farm business, including marketing aspects, possibly under the guidance of a leader recruited from overseas. There is great need for improvement in standards of farm accounting in many cases, and we would be strongly in favour of a professional farm accountancy and secretarial business, which could serve a number of farms on an itinerant basis.

31 7. Horticultural adviser. To encourage the establishment of commercial horticultural production near Stanley, as well as in other areas, a specialist should be appointed to carry out a feasibility study covering production methods, crops and marketing systems. The study should take account of both existing needs of the Islands and as they may expand in future.

32 8. Sheep importation advisory panel. A panel should be formed composed of representatives of the Sheep Owners Association (or Marketing Board if and when formed), buyers of the Falklands clip and the Agricultural Department (when established). The panel would be able to advise farmers on the type of breeds, and other characteristics to look for in selecting stud sheep for import, and play an important role in interpreting the implications of market trends for the type of wool likely to be most in demand in future.

Planning is going ahead. depends on Cordeys. Gase being planned

33 9. Agricultural education and training. Inclusion of rural science in the School syllabus is recommended in the section on Education below, as are grants or scholarships for higher education. In the agricultural field, these should be available for Falkland Islanders to enable them to take courses of certificate, diploma or degree standard and also short-term training at specific institutions. Continuation of periodic visits by instructors to the Islands as arranged by the Sheep Owners Association is commended. Larger farms should be encouraged to appoint one of the senior employees part-time training officer.

34 10. Wool marketing. An early appointment should be made, under UK Technical Assistance, of a wool marketing adviser with terms of reference on the following lines:

- a. to investigate the various options for improving the marketing of the Island's wool with particular reference to maximising long-term returns, securing market information, stabilising prices paid to producers, establishment of a brand or trademark and securing industry backing;
- b. to prepare, for the FIG, detailed descriptions of all feasible schemes;
- c. to participate in the discussion and consideration of the schemes by Government, the Sheep Owners' Association and the General Employees Union and assist in the choice of a preferred scheme;
- d. to assist the FIG and representatives of the Sheep Owners' Association in conducting negotiations with such other organisations as may be involved in the preferred scheme;
- e. to assist with the drafting of a scheme and related legislation, articles of association etc;
- f. to advise on and assist with the establishment of the organisation needed to run the scheme, including selection of staff, agents etc.

An appointment of eighteen months is likely to be necessary. The person selected as Adviser should have had prior experience of wool marketing schemes.

AQUATIC RESOURCES

Programme

The potentially exploitable resources differ in value, geographical location, exploitation techniques, shore based requirements and time scale of development. The flow diagram at Fig 10 indicates the essential constituents of the suggested development programme, described below.

35 We recommend:

1. Falkland Islands fresh water and anadromous fish. A survey of the resources similar to that of 1973 should be repeated from time to time, say every five years, or such interval as may be recommended by the appropriate experts. The next survey should include a report on the effects of changes in stream flow resulting from water extraction, and on potential pollution from processing of kelp. The work might be undertaken by the Natural Environmental Research Council under contract from the Ministry of Overseas Development, and would probably involve three man-months.

36 While we do not recommend an early government-funded initiative regarding the establishment of salmon, the setting up of experiments on this subject should receive careful consideration by any future Development Officer (taking into account tourist development). Close consultation on this issue should be conducted with NERC and Department of Agriculture and Fisheries for Scotland. Any experiments should be supervised by an expert on behalf of the Falkland Islands Government.

37 2. Seaweed (kelp). Although the Island's kelp resource for alginates is very large, no action by Alginate Industries Ltd to exploit its concession seems likely for at least three years for market reasons. There is little Government could do to speed the start up of the proposed investment. However, we recommend that FIG should give consideration to a study of the kelp resource, its economic potential, including the scope for processing on the Islands beyond the dried weed stage and the possible revenue earnings, to guide future negotiations with AIL or another company on the form of licence agreements.

38 The Falkland Islands Government should also secure the appointment of a research officer for a limited period (say three years) to study the ecology of the kelp, with special reference to its place in the ecosystem of potential coastal fisheries. This should take place under the auspices of the proposed Environmental and Resource Management Committee (see later in this Chapter). FIG should look to AIL to provide a substantial proportion of the costs for such a research programme.

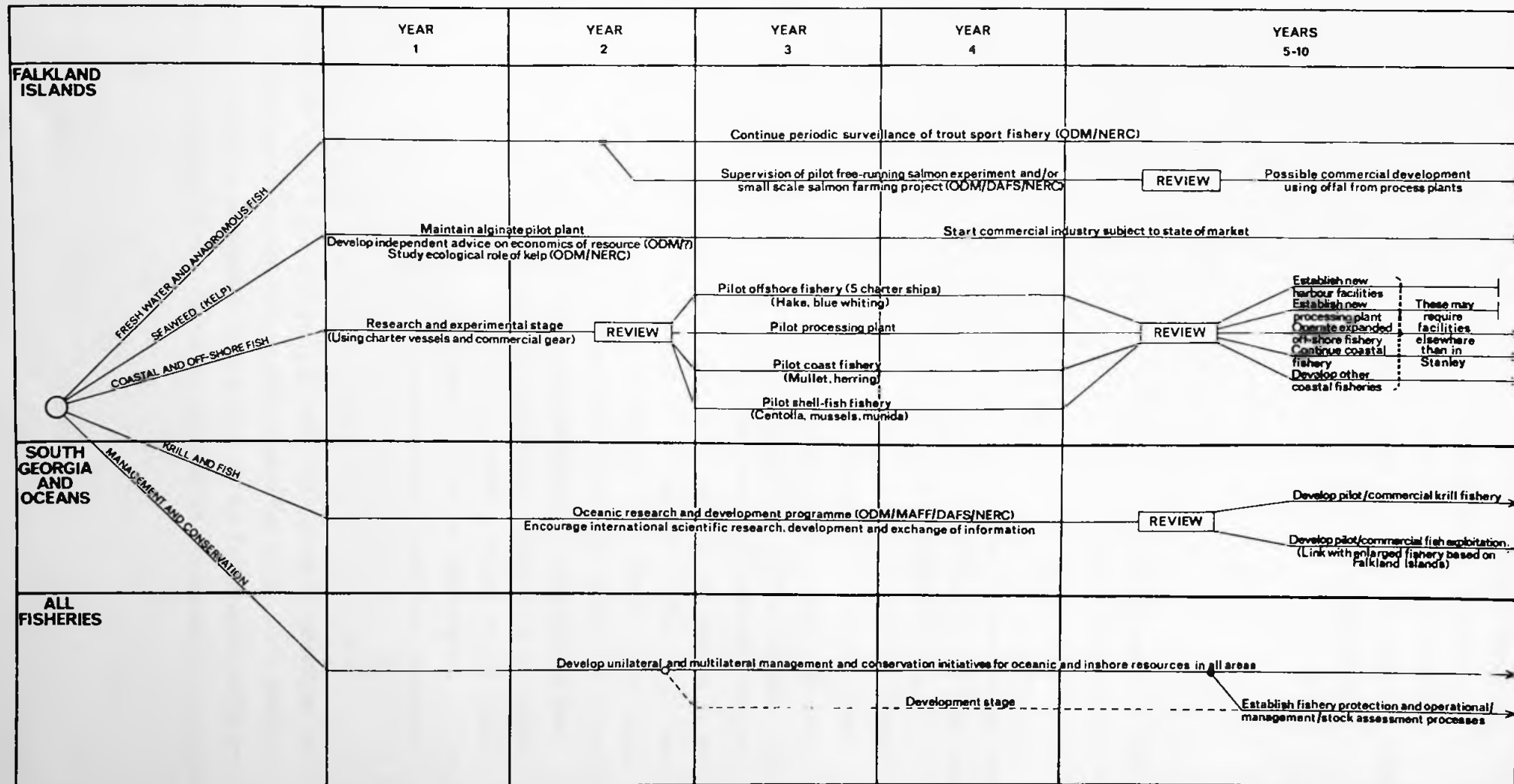
39 3. Shell fish. Government should commission from an appropriate organisation (and we would include in this category the Japanese commercial enterprise that has already shown its interest) a survey of the shellfish resources, including Centolla, mussels, and Munida. Any survey team should include a shellfish expert on whose appointment there should be consultation with the Controller, UK Fisheries R and D and the Director, Torry Research Station. These latter should assist in specifying the work to be done. Provision should be made for an effort in the field by say, two or three men totalling one man year spread over an elapsed time of one calendar year with appropriate support. A cost of £30,000 is envisaged.

4. Coastal and offshore fish. A schematic representation of a possible programme of fisheries development is set out in Figure 10. This illustrates the options, phases and possible timing of such development. The requirements of this programme are described below.

40 a. Research and experimental period. The Falkland Islands Government, in consultation and co-operation with the Fisheries Department and the Ministry of Overseas Development should immediately invite the White Fish Authority to conduct an exploratory fishing survey using chartered commercial fishing vessels. We envisage the simultaneous employment of three vessels with skippers of national reputation: one large stern trawler (with a fish meal processing capability) and two large (c 30 m LOA) motor fishing vessels of well-proven design. The total duration of charter should be up to one year. The area of research of the stern trawler should be offshore, extending to the Burdwood Bank. The motor fishing vessels should split their time between coastal and offshore work. There should be provision for ending exploratory operations after, say, not less than

SOUTH WEST ATLANTIC : FISHERIES **POSSIBLE FLOW DIAGRAM OF RECOMMENDED DEVELOPMENT**

Figure 10



ninety days in the area if results by then do not justify continuing. If there are logistical difficulties in getting catches to market, there should be provision for ending operations early if there are clear indications that a potential commercial fishery exists. The motor fishing vessels in any case should be bought at valuation and remain in the Falklands at the disposal of the Government. Costs of charter vary with vessel, skill of skipper and current earnings; net costs depend upon sales of experimental catches. It would be reasonable to set aside a sum of £1 to £1.5 million to support the project.

61 b. Pilot development. The timing for this stage depends upon the size of the fish resources (established in exploratory fishing) in relation to those of other areas of the world, and an assessment of the potential market. It may be that, in considering these factors the appropriate timing for the next stage of offshore Falklands fisheries development would be some years after exploratory fishing, assuming the results of this were positive. In any event pilot development should be preceded by a feasibility study, based on the experimental work, for a fishing industry based on the Falklands but evaluating also other possible options for exploitation. This study should be comprehensive and should take into account the socio-economic impact of various options on the Islands. The study should include techno-economic studies covering different options of exploiting the offshore fisheries. These would vary in the degree to which shore based facilities were established on the Islands. The study should also take account of the infrastructure requirements likely to be needed for the various options, both in terms of the cost and timing of investment. Furthermore it would need to consider the government organisation and services necessary in the Falklands to administer and provide essential services for such an industry. Should it recommend in favour of pilot scale work, design of minimum pilot stage facilities should also be carried out, together with an assessment of their organisational and financial implications.

If the feasibility study were favourable, and, following invitations, no commercial enterprise took the initiative, launching of a pilot scale venture with commercial management would have to be financed chiefly by government. This would need to be attempted for an operational period of

two years, based on the use of a pilot processing plant and at least five large motor vessels, or their equivalent in fishing capability (see Section I Chapter 7, Stages of Development). Capital expenditure and earnings guarantees of some f6 million or more are likely to be required for such a pilot development. Depending on the results of the feasibility study and based on the research and experimental results, fishing effort should be divided between coastal and offshore resources.

c. Commercial development. The conclusions of the feasibility study, particularly those pertaining to equipment, manning and infrastructure needs, should be continually reviewed in the light of operational experience of the pilot schemes. This would also be the time for a review of the impact on the Falkland Islands of likely fisheries development before final decisions are made on the size, location and organisations of the new industry.

42 5. Fish farming. This should be seen as dependent on the prior development of other Falkland-based fisheries but there is no reason why a small pilot scheme should not be started in parallel with the pilot schemes for coastal and offshore fisheries, so long as there is sufficient skilled manpower available.

43 6. Krill and fish resources in the offshore areas of South Georgia and the Southern Atlantic. In the light of the current exploration activities (see Chapter 7), we recommend that:

- a. every opportunity should be taken to place scientific and technical observers on board the experimental vessels of other nations;
- b. present marine biological programmes should be extended to include basic research related to:

- 44
- i developing krill stock assessment and management techniques; and
 - ii means of deploying the fleet tactically by long range detection or other means.

- 45
- c. the UK should participate in international initiatives (e.g. the United Nations Development Programme's Southern Ocean Fisheries Programme) aimed at rational management of the living resources of the Southern Ocean.

7. Seals

- 46
- a. In Chapter 7, reference was made to the very rapidly expanding seal population (particularly elephant seals) of South Georgia. Though we do not consider there is a very strong likelihood of commercial exploitation being established, in the event that an approach was made by private interests, advice would need to be sought from NERC on a proper system of management and control. It is more likely that scientific bodies would themselves wish to initiate a means of population management. In this instance, a study would be required to identify the most economic means of achieving this end.

- b. Before any exploitation of seals is allowed in the Falkland Islands, a full evaluation of the populations and their growth rates should be undertaken. Tourism interests should also be taken into consideration. This work would most suitably be carried out by natural scientists from NERC or from an interested university, with help from local naturalists.

- 47
8. Live specimens. Any trade in live specimens of the common penguin, birds and seals would need to take account of the relevant provisions of the international convention governing trade in endangered species and of local legislation giving effect to that convention. Regulations covering the export of live specimens from the Falkland Islands Dependencies have already been made. The publication of similar, revised regulations for the Falkland Islands should be expedited. The scale of licence fees should be

increased for certain species and kept under review. Revenue from licence fees could be used for ecological research purposes in the Falklands and the Dependencies.

48 9. Fisheries management and conservation. First, the United Kingdom, in conjunction with other interested nations, should seek to promote the establishment of a Convention for the control of the fisheries in the Southern Ocean or in the south west Atlantic sector thereof. This should be backed up by an increase in the British effort in fisheries research and technical development in the area, as we recommend above. In our view this effort should include deployment in the area of one of the three ocean going shelter-deck stern trawlers now operated by the UK Fisheries Department. The management regime envisaged includes conservation measures, exchange of catch statistics, allocation of catch quotas, control of total effort and allocation thereof, and powers of inspection in any areas of the international high seas within the zone defined in the Convention. This should embrace a sea area enveloping the EEZs concerned, including the areas that would be defined by a 200-mile limit off the Falklands and the Dependencies.

49 Secondly, a design study and cost estimate should be commissioned for a fisheries patrol vessel, viz 50 to 100 m LOA with a speed of 18 to 22 knots and capable of carrying one helicopter. It should be fully equipped for carrying out marine biological research and should, essentially, be viewed as a dual purpose vessel. The design study should be entrusted to commercial consultants and the standards of construction should be Lloyds + 100 A1 trawler strengthened for operation in ice.

MINERAL OIL RESOURCES

Policy

As with offshore fishing, any development or major policy formulation must be seen as taking place within a highly political arena, particularly as the major area of interest, lies offshore. In Chapter 8, it was argued that the likelihood of there being a commercial response to a unilateral policy issuing exploration licences on the part of the Falkland Islands Government was very small not only because of the political risks involved for an oil company but because of the high cost of such an effort without Argentina's cooperation. It only remains to point out the substantial defence commitment that would be required to support a unilateral development programme at a time when it is being argued by the oil industry that the defence cover for the North Sea oil operation is inadequate.

Though political circumstances today would not seem propitious for future cooperation, Argentina's new exploration programme and the state of their economy may increase the commercial argument, from the Argentinian viewpoint, for arriving at some form of political accommodation. An additional factor is that Britain, both through its major oil companies and, more importantly at a future date, its national oil company BNOG will possess deep water offshore experience and finance resources which Argentina may well not possess.

Current legislation. The existing Mining (Mineral Oil) Ordinance, 1964 (revision) with the accompanying Regulations is currently under review for which purpose a legal adviser has been engaged. Before commenting on changes to cover offshore exploration and production, certain features of existing legislation are described, namely:

1. The Falkland Islands contain 31,000 acres of Crown Lands and 2,882,000 acres of alienated crown lands, and of the latter, the Crown reserves mineral rights on only 1,230,000 acres. The current Ordinance thus only applies to 43 per cent of the area of the Islands.

2. The 1964 amended Ordinance confers a right to grant exploration/mining licences on the Government with the approval of the Secretary of State, while the regulations refer solely to Government approval.

3. Existing offshore oil and mineral rights under the Continental Shelf Convention of 1958 extend to the 200 metre isobath, and beyond, to the limit of exploitability. The exception is to the West where rights would extend to a median line between the Islands and Argentina when not limited by the constraints described. The Ordinance jurisdiction is confined by these limits.

50 New mining (mineral oil) ordinance. It is recommended that new legislation should incorporate the following:

1. Controlling legislation should be enacted to vest all mineral rights in the Crown including those under alienated lands. As far as is known this is the case in other Crown colonies. There would seem to be no justifiable case for compensation.

2. The new ordinance should be consistent with those applying in other similar colonies e.g. Ascension, Seychelles in its definition of the authority for issuance of exploration/production licences/leases; power is normally given to the Governor to grant licences.

3. The area of jurisdiction for granting of licences should be drafted if possible, so as to allow future changes in the definition of offshore sovereignty limits to mineral rights to be incorporated. These may arise from the ongoing Law of the Sea Conference, though the position of disputed Dependencies may not be satisfactorily resolved in this Conference. Subsequently there would theoretically need to be agreement between Argentina and the Falkland Islands Government over the position of a median line, though the form of cooperation may be able to circumvent this potential deadlock to negotiations.

4. The ordinance should be brief serving as legislation enabling the Governor, at a future date, to make regulations on the precise form and terms for exploration/production licences for petroleum or minerals if necessary. These will include the regulations governing those activities, the form of international cooperation in respect of these activities and the limit of the median line, royalties, taxes, power to compulsorily purchase land (if necessary) and harbour control, environmental control, disturbance fund etc. The Seychelles Mining (mineral oil) Ordinance of 1963 serves as quite a good model in so far as it is essentially enabling legislation and excludes regulations¹, though even this ordinance deals too lengthily and exactly with the question of entering upon private lands, compensation therefrom etc.

If and when it becomes necessary to draft particular legislation governing any of the activities described, including exploration/production licences, the options for which are discussed below, expert advice will naturally be required. Much of the necessary expertise resides in HM Government Departments, including Departments of Energy and Environment, Scottish Office and certain local authorities.

Finally, when the arrangements associating the Falkland Islands and Dependencies with the EEC come into force, there are implications with regard to the licensing/leasing of rights for mineral (oil) exploration and production. Amongst the more important are:

- the requirement for non-discriminatory treatment of nationals and companies of Member States of the EEC who may wish to establish subsidiaries or provide services in the Falkland Islands;
- the granting of any monopoly rights for exploration or production.

These implications should be carefully considered before future negotiations with the Argentinians.

¹ The 1964 Mining (mineral oil) Regulations of the Falkland Islands extend to over 40 pages and were probably out of date within two or three years of enactment.

Oil exploration/production licensing

51 Assuming that agreement for cooperation is reached at some date in the future, the form of offshore hydrocarbon exploration/production licensing arrangement that is eventually agreed will inevitably be a compromise which will need to recognise not only the economic and political aspirations of the two states involved but also the potential and the operating conditions of the area concerned. Therefore, the framing of Falkland Islands oil licensing policy should be undertaken not only with the intention of maximising benefit for the Islands but also in full knowledge of Argentinian oil exploration policy. Appendix 3 describes the various forms of licensing options which might be most beneficial to the Falkland Islands, against the background of Argentinian oil policy.

52 Interim programme recommendations. Even without progress on the political front, there are still interim measures possible in the longer term interest of the Falkland Islands. Essentially these involve steps to improve the current state of knowledge of the prospects and to ensure that there is a proper understanding of Argentine offshore oil developments and their policy in this respect, so that HMG is sufficiently informed to respond to any political initiatives as well as to formulate a more concise provisional policy. The steps are:

1. Concentrated appraisal by an experienced geophysicist of Birmingham University's processed seismic data.
2. Purchase of certain commercial seismic lines in the Argentinian sector of the Malvinas Basin. For not more than £1,000, two and maybe three lines shot and processed by Geophysical Service Inc. (D,C-C¹ and B¹) should be purchased. These would:
 - a. corroborate and extend the work already undertaken by Birmingham University covering the Falklands sector of this basin;
 - b. give some insight into the relative prospects on the Argentinian side. This will be important in framing any joint development policies.

This purchase could be made as an extension (or within) GSI's current computer processing contract of Birmingham University data. This would be more fruitful than processing of Birmingham University's east Burdwood Bank and Falkland Plateau Reflection line data.

3. HMG should monitor oil developments in Argentina. In this respect the Department of Energy, as well as the Foreign Office, should be involved, with a specific allocation of responsibility for building up available data on the hydrocarbon prospects and activities in the Argentinian/Falkland Islands offshore areas.

INDUSTRY AND CRAFTS

Policy

53 Government policy should comprise encouragement of local enterprise by means of capital provision through a lending institution, possibly on concessionary terms, and advice from the Development Officer.

Programme

As concluded in Chapter 9, the most immediate prospects for industrial diversification are small scale projects such as sheepskin pickling, skin processing and possibly weaving. Even so they should be encouraged (recognising the constraints of deployment and availability of labour); particularly in conjunction with the development of tourism in the Islands. However there are two larger scale potential developments, which we recommend should receive further assessment.

54

1. A feasibility study of a meat collection and freezing operation

While recognising the previous failure of the Ajax Bay project in 1953, and both the local and external constraints on a viable freezer development, we suggest that its potential importance as a new industry is sufficient to justify a further feasibility study. It should, however, await the main outcome and recommendations of the Grassland Trials Unit on future pasture utilisation and breeding policy for improving wool production.

The study should cover the potential for a mutton freezer in isolation, but would also need to take into account possible integration with a future fish freezing operation. The study should include a market assessment (for upland goose as well as mutton), methods of processing and the utilisation of by-products (sheepskins and offal and bones for fertilisers). Other vital considerations would include internal and external transport links. We attach great importance to a feasibility study in view of the failure of the previous freezer project. Close coordination with the Grassland Trials Unit would be necessary in so far as sheep management and breeding policies may be affected.

55 2. Knitwear production. We recommend that early consideration should be given to the establishment of an expanded knitwear industry in the Falklands. Factors affecting the successful operation of such a project are discussed in Chapter 9. Promotion of this development would need to incorporate the following:

- an organisational and marketing study;
- employment of a visiting design consultant to provide advice and training on knitwear design;
- employment of a knitting expert to provide advice on machinery and equipment and training on use of hand-powered knitting machines;
- subsidised, or free, provision of premises for a central workshop;
- grants for selective training (design or production coordination and supervision) overseas.

However, before even a more detailed marketing and organisation study was undertaken, there should be a careful local assessment of the likely availability of full and part time labour (in both the Camp and Stanley) for this development.

TOURISM

The development of tourism hinges primarily on the removal of the constraint of the limited capability of the permanent runway. The following development programme assumes the extension of the runway.

Policy

50. We recommend that the Falklands Islands Government should adopt a positive role in encouraging and controlling tourist development. Fiscally there is a case for a restrained approach, allowing build-up of tourists to levels which ensure adequate profitability for hotel and tour operations, before application of specific tourist taxes.

Programme

51. In view of the potential for tourism, identified in Chapter 12, and the size of the associated economic benefit to the Falklands, we recommend the following programme:

1. Tourism development study. The study would need to establish with greater certainty this Report's findings on the market for tourism in the Falklands in terms of potential numbers and location. It should identify all the interested tour operators and airlines, and set up contacts between them and any Development Officer¹, or Chief Executive appointed. Further it should recommend the scale and timing of the establishment of required accommodation facilities in Stanley and in the outlying places of interest, and also, the necessary internal transport requirements. Lastly it would need to identify the likely source of finance for this development, in particular pointing to the extent of government subsidy that might be required
2. Appointment of tourism promoters. Their responsibilities, acting in concert with the Development Officer, would be to take up the recommendations of the marketing and organisation study. This would involve follow-up

¹ See Chapter 20.

negotiations with tour operators, airlines, hotel companies and travel agents in different countries and, as developments progressed, active promotional advertising of the Falkland Islands. Although the promoter(s) would need to be based outside the Falkland Islands (the United States and/or South America being the most likely locations) at all times close coordination with the Development Officer would be necessary. The timing of outside promotion and involvement of tourism interests will be critical in relation to removal of local constraints to development.

The promoters would most probably act on a part-time basis and might themselves be suitable tour operators or tourist agents.

The appointment(s) would be made by the future Chief Executive of the Falkland Islands, and the exact terms of reference would be a matter for a future Development Officer¹. The latter would play a central coordinating role in tourism development.

59 3. Concessionary finance. The case for concessionary finance for Island-based accommodation and travel facilities should be considered and terms and procedures should be established with the help of the tourism promoter(s). (See later this Chapter under Investment and Banking.)

60 4. Provision of facilities in Stanley. Facilities such as currency exchange (if not part of a banking operation), information service (under Information Officer as at present), information boards and notices at arrival and departure points, shelter for visiting tourists, toilets etc. should be provided by government. Other facilities, such as restaurants, would be for private enterprise.

61 5. Legislation. Such legislation as is necessary to control standards of accommodation and the development of tourism should be drafted at an early date

62 6. Ecological monitoring. This should be initiated through a Scientific Advisory Committee (see below under Environment) and include observation of the relationship between numbers of visitors and the ecological impact of visitors.

¹ See Chapter 20.

TRANSPORT

The following represent the main recommendations for the development of the external and internal transport facilities in the context of the proposed economic strategy.

1. External air links

63 a. The permanent airfield should be strengthened and extended to a length necessary to receive short/medium haul jets and part loaded long haul jets, such as a Boeing 707's, on the final leg of international flights. It is estimated that this would mean a lengthening of some 950 metres and a strengthening to an LCN of the order of 65-70.

Action should be taken at the earliest opportunity so that the necessary engineering design study and negotiations with the contractors (Johnston Construction Ltd) can be finalised, if possible, before the permanent runway has been completed and the labour and machinery is lost from the site.

b. Once the go-ahead for construction has been given, discussions should take place with officials of South American governments and airlines over the establishment of direct flights. This is another area where close cooperation with Argentina will be highly desirable. In this connection coordination with tourism development is required.

2. Sea freight service

64 a. FIG should approach the Falkland Islands Company with a view to ensuring that the Islands' interests are properly represented in major issues and decisions affecting the sea freight service. These would include the feasibility of introducing a greater number of freight links with South American ports. Direct links with Argentine shipping interests could also be explored.

*Imp.
2 Jack lift trucks*

65

b. FIC should be encouraged to study its current slow and expensive jetty handling methods with the view to possible investment in more mechanisation and improved procedures. FIG may need to be closely involved with any decisions to extend or improve FIC's jetty facilities in so far as they affect operations on the adjacent Public Jetty.

3 Internal air service

66

a. It is recommended that the current prices charged for internal air travel be reviewed with the aim of gradually decreasing the level of subsidy. It is recognised that any increase has a social cost attached to it but it is also true that the average cost of travel, measured in real terms, has fallen substantially below that of 1954.

67

b. It is not possible at this stage to make firm recommendations about the type and number of planes that should replace the existing two aircraft. However replacement policy, as well as taking into account aspects of capital and operating costs, should have in mind the need for flexibility in view of possible developments in the economy. Technical and further economic advice will almost certainly be needed.

4. Coastal shipping

68

a. In encouraging and/or establishing increased and diversified activity around the Islands, consideration should be given to the possibility of expanding the coastal shipping service by introduction of a small, faster adaptable passenger/freight craft. This could be a jointly run enterprise, made up of agricultural, tourist and FIG interests.

5 Roads

69

a. Repair of Stanley roads - In spite of their poor condition, it is not feasible to set up and train a road gang by hire of an experienced road foreman if the current shortage of manual labour in Stanley continues. This would be the case if the airfield is extended. The airfield has higher priority, though action on Stanley roads should be taken at the earliest practical date.

b. Camp roads - Development of camp roads should be undertaken in a series of stages:

- 70
- i. Appointment of a road engineer (the Forestry Commission has the most experience in the UK of constructing low cost roads on terrain most similar to that of the Falklands) to survey the method, requirements, capital and operating cost of building a low cost road network in the Falklands joining the large settlements and Stanley. Different configurations should be explored.
 - ii. The estimates should be reviewed by FIG and a decision taken as to whether the capital costs can be justified (we conclude in Chapter 10, on preliminary analysis of social and economic benefits that they are, so long as our estimates of cost are not serious underestimates) and future maintenance costs can be met from FIG revenue.
 - 71
iii. Proceed with construction of a road from Stanley to Darwin/Goose Green via Fitzroy to gain practical experience of capital and operating costs, before constructing a larger network of camp roads.
 - 72
iv. The work should be undertaken by a road construction unit consisting of the right balance of experienced imported personnel and Falkland Islanders. The possibility of assistance by a unit from The Corps of Royal Engineers is worth exploring. Again timing in relation to any extension of the airfield will be an important consideration from the point of view of local labour availability.

INTERNAL TELECOMMUNICATIONS AND BROADCASTING

Policy

13 There is no doubt a great deal of scope for improvement of internal telecommunications and the upgrading of the whole system on the lines indicated in the Le Fevre report of 1972. This would be a lengthy and expensive operation probably costing over half a million pounds at present-day prices which we do not consider is justified in the light of the recommended strategy. Any investment on this scale should await the outcome of exploration fishing and be reconsidered as part of any major infrastructure survey related to the establishment of the Islands as a base for exploiting marine resources.

We take the view that FIG's present policy of a step-by-step approach to the problem of improving telecommunications, giving first priority to the improvement of the R/T system, is appropriate.

Programme

14 The replacement of the R/T system is overdue and should be effected as soon as possible. The pilot scheme should be getting under way in April 1976 and, providing the results are satisfactory, the new R/T sets should subsequently be installed without delay. Provision for this expenditure has already been made in the 1975/76 development expenditure estimates: £12,500 from colony funds and £27,500 from UK aid, making a total of £40,000. The new R/T system should provide 24-hour communications throughout the Falklands, with little or no interference in most conditions and maintaining a degree of "openness", an attribute of the present system which is valued by many in the Camp.

With regard to broadcasting, the decision to rent a short wave transmitter from Cable & Wireless seems sound. This should provide a much better short wave service improving reception in West Falkland.

15 The qualitative aspects of broadcasting in the Falklands merit greater attention and efforts should be made to improve the choice and content

of programmes. In particular, local people should be given opportunities to express their view and opinions on matters of local interest.

96 In Chapters 5 and 14, we drew attention to the need for greater stimulation and more recreational facilities particularly in the Camp. It appears that recent technological developments in the field of video-cassettes might make the introduction of television possible. A stock of video-cassettes could be maintained in Stanley and circulated to settlements with company, community or privately-owned TVs in a similar way to films as at present. In addition, the production of local programmes on video-cassette by the Broadcasting Department using low-cost portable equipment might be possible. We recommend that this should be the subject of a feasibility study.

INVESTMENT AND BANKING

Policy

77 We recommend that Government policy in this important area be guided by the following considerations:

1. High priority should be given to the establishment of new institutions to encourage local enterprise and investment making maximum use of local savings.
2. Whatever service is established should be comprehensive and cater for all types of requirements in view of the small size of the community.
3. Retention of savings in the Islands and their use for productive activities should be encouraged by fiscal and financial measures.
4. Incentives to encourage investment should be specific, aimed at identified sectors and activities on the lines of the present subsidy for fencing.

Programme

In the light of our conclusions regarding investment incentives (see Chapter 3) our recommendations are:

78 1. Investment incentives. The main investment incentives offered by the Falklands Government should take the form of loans, financial assistance or grants directly related to particular projects, rather than fiscal measures of a more general kind which have been proved ineffective. The proposed Development Officer, whose functions are defined in Chapter 20 would be responsible for identifying and encouraging specific projects in the Falklands and, in this capacity, he would help to determine the appropriate kind and degree of financial assistance which should be given to each project.

79 a. Assistance fund. In our view, this should be the Government's main instrument for encouraging all forms of private sector investment; through

the allocation of funds to reduce rates of interest, to waive interest for specific periods, and to provide grants for specific aspects of a project. The fund would need to be operated in conjunction with an institutional source of funds such as a Bank or Revolving Loan Fund (see below). Schemes should be vetted by the appropriate government officers (the Development Officer and/or the Agricultural Officer), and allocations approved by the Development Committee which should also lay down conditions for application. It should be applied flexibly and the results should be carefully monitored.

Some of the areas of activity of the Fund are likely to be:

- small farm purchase or development;
- tourist accommodation;
- small-scale industries;
- specialised farming activities;
- housing loans (concessionary element).

b. There is also a good case for changes in capital allowances in association with an increase in company tax rates (see chapter 20). Two annual rates of capital allowances are envisaged - 10 per cent for buildings, and 25 per cent for all other items of capital equipment - with a balancing allowance or charge when an asset is disposed of.

80 2. Establishment of a comprehensive banking service. There are several ways in which a fully-fledged banking operation could be established. Because of the need for professional banking expertise, for independence of judgement and for back-up in terms both of large financial resources and specialist services, we conclude that the most suitable would be the establishment of a local branch of one of the major UK banks which would ideally provide commercial banking and merchant banking services. In view of the size of the community and current political uncertainties, it may be difficult to attract such companies to the Falklands. However, we attach great importance to this development.

The Falkland Islands Government, possibly in consultation with FIC, should approach one of the UK banks with a view to the early establishment of a local branch in Stanley to provide a wide range of service.

The services which it is recommended should be included are:

- a. Loan and overdraft facilities. Loans should be made available for a wide range of purposes, including house purchase, and fixed and working capital investment in all types of new or existing enterprise according to normal commercial criteria. We would expect commercial rates of interest to be charged, but in addition, there should be provision, (from a Falkland Island Development Assistance Fund, see above), for concessionary financial aid from government, payable to the bank, which will enable the latter to make loans with low or partially-waived interest.
- b. Expert financial advice. Provision by the Bank Manager of counselling and advice to aspiring and established farmers and businessmen.
- c. Deposit accounts. By the terms offered, the aim would be to build up a pattern of local deposits and loans to local business, thereby channelling local funds into investment.
- 81 d. Revolving loan fund. If it proves impossible to attract a 'private sector' bank, a government operated fund should be established. This could comprise an allocation of capital (up to a maximum of, say, £1 million) from which loans would be made, at commercial rates of interest, to the same range of applicants that would use a commercial Bank. There should also be the facility to make concessionary terms available from a Development Assistance Fund. Repayments of principal and interest into the Loan Fund should make it self-perpetuating.
- 82 e. Government Savings Bank. Given that, in the light of the establishment of fully-fledged commercial banking in the Islands, the Savings Bank does have a future¹, we would recommend the following early changes (some of which have already been referred to in the Report by Comben and Waller):

¹ In order to attract a banking operation, transferring the operations of the Savings Bank to the commercial bank might prove necessary and indeed desirable, subject to certain safeguards.

i. The rate of interest payable should be adjusted to reflect more accurately the earnings from Bank investments, and transfers of surpluses to Government revenue should cease.

ii. Consideration should be given to the abolition of the tax concession because of its regressive character.

iii. The Bank's investment policy should be reviewed and, as local opportunities for investment develop, some funds should be invested in the Islands.

83 3. Exchange control. Although little evidence has been adduced to demonstrate that the UK Exchange Control regulations have hampered investment in the Falklands since 1972, we are inclined to think that the regulations would tend to deter the potential small UK investor. We, therefore, recommend that HMG should consider the possibility of relaxing the exchange control regulations governing direct investment in the Falklands although this may necessitate stricter controls by FIG on the transfer of funds from the Falklands to areas other than the Scheduled Territories. Alternatively, HMG might consider the possibility of re-including the Falklands in the Scheduled Territories in much the same way as Gibraltar was re-admitted after June 1972.

TERTIARY SECTOR SERVICES

Wholesale and retail trade

84 In the retail sector spare capacity exists but many of the premises and facilities are old and out of date whilst manning levels in relation to turnover are inclined to be high. More could be done to encourage local supplies and purchases, particularly of fresh produce from South America.

The policy recommended above for a new lending institution, and coupled with advice and assistance from a Development Officer should be adequate to provide new sources of capital and encourage local enterprise.

Improvements in quality and range of wholesale and retail services assume greater importance if developments in primary and/or secondary sectors take place.

Fuel supply

85 Our recommendations with respect to future Government policy and action are:

1. Establishment of minimum oil stock requirements. In common with most oil importing states it is advisable that the Islands should have legislation controlling minimum stock levels for oil products. Following the 1973/74 oil crisis, most countries, including the EEC, have adopted the policy that a minimum of 90 days requirements should be held in inventory. Because of the isolation of Falkland Islands a higher minimum level is advisable. The following levels are therefore recommended:

Gasoline	120 days
Kerosene	"
Avtur	"
Gas oil/diesel*	"
Lubes	"
Avgas	6 months

* This item is somewhat academic in view of the enormous Admiralty stocks in Stanley.

Avgas is treated as a special case because firstly it is a speciality product manufactured by a limited number of refineries, and secondly because of the vital importance of the internal air service to the Islands.

86 2. Implementation of the YPF Agreement. It is recommended that the YPF supply Agreement should be implemented at the earliest opportunity. The option exists for the termination of this Agreement (even though it has not been implemented) at the end of 1976, by giving 6 months prior notice. The earliest date for notice is July 1 this year. The argument against placing of the Islands' fuel supplies in Argentina's hands can be met by adding a clause providing for minimum stock levels to the terms of the Agreement. This will not place undue operating inflexibility on YPF, since reserves of gasoline can be held in drums, and there are ample gas oil stocks already.

87 3. Oil jetty. The ongoing oil jetty study should be extended to include single buoy floating hose system, as is currently employed in the Norwegian, Icelandic and Chilean fjords. If feasible this would be a much cheaper solution than the initially recommended stone jetty construction.

Other tertiary sector services

88 We conclude that there is a general need to improve the quality and range in many of the services. As mentioned, the need for such development will increase, assuming the economy expands, particularly in areas such as building, vehicle maintenance and repair, road transport haulage (if roads are constructed), dry cleaning and shoe repair. As discussed in Chapter 12, Tourism, expansion and improvement of hotel accommodation will require particular attention.

89 As with wholesale and retail trade the provision of a new lending institution should provide the necessary incentive for local entrepreneurs to extend the activities from part-time or embark on new ventures. However, there may be instances where some form of financial assistance or subsidy, from the Development Assistance Fund or Social Development Fund (see below under Education) is justified, as in the case of the production and distribution of an effective, frequent and regular local newspaper. The reintroduction of a local newspaper should be strongly encouraged.

MANPOWER AND POPULATION

Programme

90 We recommend:-

1. Salary aid and grants. As pointed out in Chapter 4, while OSAS provided for the Islands' current needs for professional staff by bringing salaries up to market levels, it did so at the expense of a permanent "brain-drain". Overcoming the problems would require action by both FIG and HMG, in the latter case not only for the Falklands but also for other territories too small to support higher education and training. We would recommend an urgent review of the problems and suggest for consideration:

- the introduction of scholarships or grants, at UK government expense, for Islanders.
- opening OSAS terms to qualified Falkland Islanders now resident in the UK in respect of a free passage and removal expenses and, possibly, a partial salary supplement (less than the full rate) for a limited number of years.

91 2. Improving company recruitment and induction procedures. This could be achieved in a variety of ways including:

- preparation by the Sheep Owners' Association or Government of briefing material about life in the Islands and working conditions;
- seeking professional advice on methods of advertising interviewing, selecting and inducting new recruits;
- seeking an arrangement with an existing organisation in UK, such as the Highlands and Islands Development Board for operation of a recruitment centre.

92 3. Wage Agreements. Further consideration should, in our view, be given to the recommendations by Mr McDowell on simplifying the Camp Wage Agreement, although for many activities piece rates may be the most appropriate form of payment.

93 4. Government salary scales. A further salaries revision seems called for to remove the inequity of substantial proportions of salary, representing cost of living additions, not counting for pension purposes. At the next revision we recommend the Commissioner be invited to consider a system of automatic consolidation for pension purposes.

94 5. Cost of living index. Under expert guidance, consideration should be given to the revision of the index both for Stanley and Camp on the basis of a representative family expenditure survey. Attention should also be given to the methods of measuring quarterly changes, the weighting of items and the frequency and procedure for periodic revisions.

95 6. General Employees' Union. With Government guidance, where appropriate, consideration should be given to the Union's financial and succession problems which stem from its small size. Possible solutions are to widen the scope of membership (though this is limited) and possibly seeking temporary affiliation to a UK union, until such time as membership may increase through possible development of the Islands' economy.

96 7. Civil Servants' Association. Government should consider establishing a formal forum on the lines of a Whitley Council for consultation over matters pertaining to conditions of service.

Because of the small size of this Association, we suggest attempts be made to establish links with a UK Civil Service Union. This would strengthen the representation and resources available to the Falkland Island civil servants.

97 8. Collection and provision of information on population, jobs and opportunities. This is important both for the formulation and modification of policy on population for the provision of practical assistance to potential immigrants. We would expect that much of the work would be carried out by, or under the direction of, the proposed Development Officer and suggest:

- review of methods of collecting regular information on emigration and immigration;
- review of the population census and institute changes to bring the classification of information into line with current best practice;
- establishment of a counter-drift register to identify facts such as the new location of emigrants and reason for leaving;
- establishment of a regularly updated register of farm jobs, and business opportunities, and vacant houses which can be regularly published locally and provided to potential immigrants.

SOCIAL INFRASTRUCTURE

The development programme in this area contains a number of more specific recommendations of a different nature to those preceding in the economic field. However, as argued in the strategy (Chapter 18), social considerations are a vital component in any development of the Falkland Islands.

1. Housing

At the present time, and in the absence of a local authority we see no alternative to Government fulfilling a housing authority role.

We recommend:

98
a. Transfer of the housing loans scheme to a bank. Any new banking institution (see above under Investment and Banking) should be encouraged to take over the government scheme maintaining present terms. This should ensure that there is no undue constraint on funds available. Allocations should be made from the Development Assistance Fund to the Bank where there is a gap between commercial terms and the current Government terms.

99
b. Provision for camp workers to purchase houses on camp settlements. This clearly involves the cooperation of companies but in our view would operate in their long-run interests by providing larger, more balanced and stable communities. It could also provide an additional source of labour for light work around the settlements, including horticulture. We consider these benefits in the long-term out-weigh the additional costs of providing services and additional houses. Camp workers with ownership would also have the important social benefit of security of tenure. Ground rules would need to be established and this is an area in which the Sheep Owners' Association could take the initiative in consultation with the General Employees' Union.

100
c. Provision of houses. The likely future need for housing should be carefully monitored by government.

2. Education and training

10/ In our view Government's policy towards education and related matters should be influenced by the following considerations:

1. Secondary education should be raised to 'O' level standards. Overseas scholarships should then be confined to post 'O' level work. / Rye

2. Government assistance should continue to be provided for higher education and training overseas. ✓

3. Primary education in the camp needs improvement, especially to ensure a thorough grounding in basic skills such as reading and writing. Being imp

4. Education could do more to heighten awareness of local identity and potential among both children and adults. Imp.

5. Without vocational training, the Islands' economy cannot function at full efficiency. Sta Comment of comment

6. With low levels of recreational provision and opportunity for participation in local affairs, the Islanders need more positive stimulus and engagement. More of a comment than a rec.

We recommend:-

102 a. Centralisation of Secondary Education in Stanley. This has been recommended by Bell and should have high priority. Being imp A new boarding house should be constructed with accommodation for up to 80 pupils including separate common room facilities for seniors and juniors. Provision within the building should be included for house parents and also for single teachers of both sexes. Since there is no space for further development at Stanley senior school, provision of additional facilities, e.g. for domestic science and other technical subjects, hobbies area and indoor play activities should also be made at the boarding house. An approximate cost of £250,000 is estimated.

As soon as the new boarding house is open, additional qualified teaching staff will be required at Stanley to cover a range of 'O' level subjects and the senior school at Darwin should be closed. The facilities there could have a continuing use for functions such as camp teachers' seminars and periodic visits by school children from Stanley.

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b. Improvements in Camp teaching. This can be achieved in a number of ways including:

- replacement of VSO teachers by certificated;
- improvement of teaching facilities;
- more full-time teaching in settlements;
- phasing-out of teaching visits to outside shepherds' houses (this would require co-operation with farm companies, for example in avoiding posting of staff with children aged 5-8 to such situations);
- periodic seminars for Camp teachers.

104
c. Phasing out of overseas secondary scholarships. Scholarships which include education up to 'O' level should be phased out once a new secondary school is built in Stanley. However scholarships for higher education and technical training (this could include a provision that the holder returns and works in the Islands for a specific period of say three to five years) should continue to be provided. It may be that financial assistance could be made available from small community oriented trusts and foundations.

105
d. Introduction of vocational training. There is a strong case for introducing vocational training, both at secondary school level and also for youths and adults outside the education system. The organising of the appropriate curriculum in school would ideally be carried out by a trained officer in this field. If local funds are not available for such an appointment, the organising would have to be carried out by the existing staff, with assistance from the Community Education Officer (see f. below). The actual teaching of vocational subjects may therefore need to rely heavily on part-time skilled personnel, living locally. Television (see earlier in this Chapter, under Telecommunications) could also assist in this field.

06
e. Clerical assistance in the Education Department. At least one additional clerical worker in the Education Department is essential if the Chief Education Officer is to be allowed to fulfill his assigned role.

cannot afford

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f. Introduction of community education. This is now a recognised field in the UK, drawing together various related activities. In the Falklands these activities should be covered by a Community Education Officer. He should have responsibility for adult education, recreation, youth work and community development including the fostering of community councils if and when established (see Chapter 20). He should also give professional advice on applications for aid from the Social Development Fund (see below).

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g. Social Development Fund. This fund should be established to assist in the provision of facilities and services of a social nature particularly in the field of adult education, cultural activities, recreation and community development. Disbursement of funds should be authorised by a community education sub-committee of the Education Committee which should include representatives of community councils, where formed. The sub-committee should be serviced by the Community Education Officer who should be responsible for assessing demand and also for evaluating projects. Public funds should be complemented by a suitable contribution from the community (say at least a quarter of total cost).

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future

3. Social Security and Welfare

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We recommend a policy of gradual expansion of professional social welfare activity as necessary, complementing rather than replacing voluntary action and neighbourliness.

We recommend:-

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a. Permanent appointment of social worker. This should take effect from the end of the present VSO volunteer's term of office. The new appointee should report to a Social Welfare Committee composed, for example, of 1 Exco member, 1 representative each from Stanley and the Camp, a representative of an appropriate voluntary body and a minister of religion. The Senior Medical Officer should act as professional assessor. The committee should also be responsible for the management of an adequate welfare fund, which would replace the existing charitable relief fund.

111

b. Sheltered houses/old people's home. Early consideration should be given to their establishment, including the possible integration with a patients' hostel - see 4b below.

4. Medical services

We have the following general recommendations:-

112 a. Medical service and compulsory health insurance. The current system of charges for medical services should be reviewed and consideration should be given to the introduction of a compulsory health insurance scheme which could be financed at least in part by contributions from employer and employee.

113 b. Patients' hostel. Consideration should be given to the construction of a patients' hostel. This facility would provide accommodation for camp people awaiting outpatient treatment, and also for relatives of Camp patients. In addition the hostel could accommodate people with social problems for which the hospital is unsuited. A building put to such a variety of uses would have to be suitably designed.

114 c. New equipment and renovation of the Stanley hospital. The Senior Medical Officer's recommended capital expenditure over the next five years amounts to £62,000. Whilst we are not in a position to assess the justification for the full expenditure (which includes an X-ray unit) standards of the medical services will need to be uprated, particularly as and when the Islands develop. We have therefore included an item of capital expenditure on the medical service in the development programme.

Provision may also need to be made for introduction of camp medical kits.

115 d. Health visitor/district nurse. This new appointment, initially for the Camp, would enable regular visiting of Camp settlements for the provision of health advice and monitoring, particularly in respect of mothers and children, and carrying out of minor treatments, possibly reducing the need for hospital visits.

ENVIRONMENTAL CONTROL AND RESOURCE MANAGEMENT

Given our conclusion on the potential in the Falklands for economic development and the recommended strategy, it is most important that any such development should proceed in a manner which takes proper account of the natural resources of the Islands. This is necessary not only to conserve the flora and fauna of the Islands and their waters, for their natural and scientific value, but also to ensure that resources are exploited in ways which are of maximum long term economic benefit to the Islands.

To achieve this objective we therefore recommend three separate but related courses of action:

1. Environmental and Resource Management Committee. Such a committee should be established to give advice and guidance to the Falkland Islands Government on all matters concerning the conservation of the environment and development of natural resources within and surrounding the Islands. It would be necessary for the Committee to be informed to the fullest possible extent on the existing situation with regard to the sensitive and important eco-systems and resources of the Islands, to be aware of conflicting interests in any exploitation or disturbance of them, and by weighing the issues to advise the government of the Committee's conclusion on the matter concerned.

It is suggested that the Committee should consist of a neutral chairman, ideally drawn from the Islands, but independent of another economic or conservation interest in the Islands, representatives of the main economic activities of the Islands, and at least one member of Legislative Council. It should have a permanent scientific adviser responsible for data collection and identification of issues, and from time to time temporary scientific advisers, coopted as necessary. Sub-committees and working parties for specific issues could, with advantage, be set up to meet particular needs as they arise. These might, for example, be fisheries development or agricultural diversification sub-Committees.

Until such time as a new industry is established on a major scale, e.g. fishing or tourism it seems likely that the scientific adviser will

not need to be resident in the Islands but be appointed on a part time basis, and visit at least once a year. An employee of the Natural Environmental Research Council or Nature Conservancy Council with knowledge of the Falklands would seem suitable.

117 2. Natural resource and environmental control ordinance. Without attempting in this report to set forth a draft of what this legislation should cover, it seems vital that a single ordinance should be drawn up to cover all aspects of conservation incorporated in previous ordinances dealing with sealing and other wild life, hunting, the utilisation of natural resources and environmental protection. This ordinance should incorporate the latest developments in conservation thinking; legislation covering natural resource and environmental control in the Falkland Island Dependencies would serve as a good model.

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118 3. Falkland Islands Scientific Research Agency. There is a case for a central agency to coordinate and advise on all natural and social scientific research and environmental monitoring in the Falklands. All governmental, university and other agencies wishing to conduct research in the Islands would submit details of their intentions to the Agency and subsequently lodge the findings of their work. The Agency would thus act as a data bank and clearing house making information available for any parties in the Falklands, particularly and as a matter of course, the Environmental and Natural Resource Management Committee. Indeed it is to be expected that the Agency would try to steer research in directions most suited to the Committee's needs and hoped that the Agency would eventually be in a position to finance studies possible from funds made available by the industries engaged in development on the Islands (or offshore).

Again it would seem advisable to look to NERC, the Nature Conservancy Council or possibly the Ministry of Overseas Development to provide this service, at least in the first instance. It is possible that at some future date a suitable university faculty might take on the role of managing the Agency.

119 The rather wider question of establishing links between the Falkland Islands and suitable academic and research bodies merits consideration.

There are now universities, for example Memorial University, Newfoundland and Aberdeen University (Institute for the Research of Sparsely Populated Areas) who are particularly oriented to the field of physical and social science research in remote communities of low population. Further, establishing a continuing link with the Scottish Highlands and Islands Board, with its extensive experience of working in similar areas, could be of potential benefit.

CHAPTER 20: IMPLEMENTATION AND FINANCE

IMPLEMENTATION

Organisational changes

The proposed programme of development involves, in total, a considerable amount of activity in investigation, research, exploration and infrastructure improvement; and if these developments are to move ahead, there will be a need for initiatives to be taken, progress to be monitored and decisions to be followed through.

In the course of our investigations we have consulted a number of previous reports on many of the subject areas with which we have been concerned in the Falklands, and we have been struck by an apparent lack of impetus within FIG to implement their recommendations. In our view the effective and purposeful implementation of this programme requires changes in the organisation and operation of Government to make it more orientated towards development. We would suggest that the objectives of such reorganisation should be:

- to achieve more effective development by providing a clear focus of responsibility within the Government for implementation of development plans, their modification over time and the production of new plans at periodic intervals;
- to facilitate more efficient government by the establishment of clear cut objectives, including a practical commitment to development, in all departments and by an improvement in co-ordination;
- to facilitate a greater involvement and participation in decision-taking by the elected representatives of the Islanders.

In considering the most appropriate form of government structure to achieve these objectives, we have drawn upon developments and experience in UK local government organisations.

120 1. Senior government staff. While our suggestions are necessarily tentative in the absence of a specific organisational study we nonetheless attach great importance to the assumption of a more dynamic role by Government. In addition to the new posts mentioned in the sectoral programmes in Chapter 18, we would propose the creation of two new senior posts, of Chief Executive and Development Officer, with the following responsibilities:

a. Chief Executive. Reporting to the Governor, he should be responsible for:

- securing the efficient operation of government in accordance with existing policies and development objectives;
- co-operation and co-ordination between departments;
- implementation of development budgets and plans;
- forward planning to anticipate future requirements of Government and ensure their provision;
- monitoring and review of progress and revision of development plans;
- high level negotiations connected with the establishment of new industries and enterprises.

The Chief Executive would also be a member of the Executive and Legislative Councils.

b. Development Officer. Reporting directly to the Chief Executive, he should be responsible for:

- continuous monitoring of the local situation and also of external trends and developments;
- encouraging existing enterprises;
- servicing the Development Committee and advising on allocations from the Development Assistance Fund;
- stimulation of new activity at local level;
- preparation of applications for aid and technical assistance;
- maintaining liaison with development agencies and other external institutions;
- preparation of the annual development budget.

These two appointments would form the basis of a Development (and research) Department within government. The Chief Executive would act as Department Head, until such time as the economy expands to a stage justifying a Development Secretary. Indeed this arrangement has considerable advantages as many of the negotiations, for example with banking and fishing interests, would need to be conducted at a high level requiring the involvement of a senior official with wide-ranging responsibilities. The Chief Executive is seen as having links with all other permanent and temporary developmental staff and advisors. The links would be either direct or via the Development Officer who should be primus inter pares amongst other development personnel, but should not have a formal management responsibility in view of his numerous duties. It is not easy to capture what in practice would be dynamic relationships in an organisation chart but we have nevertheless provided one in Figure 11 to indicate the kind of structure envisaged. It is accepted that constitutional changes would be necessary to accommodate these proposals.

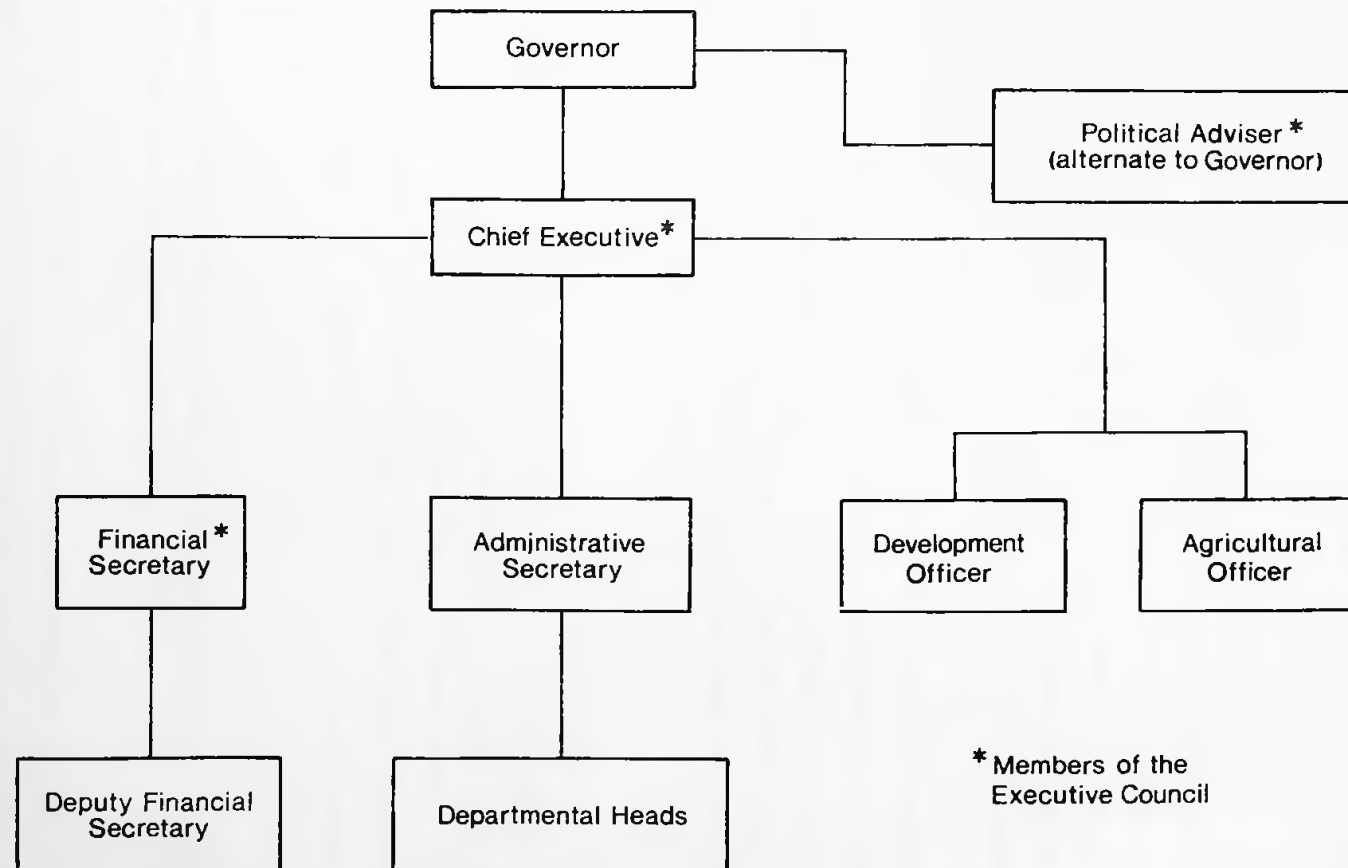
A major function of the development staff would be to maintain liaison with development agencies, research bodies, universities and other external institutions which could provide advice, finance, or staff.

Reference to a university link was made in the preceding Chapter in connection with the establishment of a Scientific Research Agency. The Development Officer would have an important responsibility in helping to guide and stimulate research in areas of practical value to the Falklands. Examples of the kind of work envisaged are:

- revision of the population census format;
- household expenditure survey and periodic revision of the cost of living index;
- ecological study of the kelp resource;
- advice on and assistance with data collection related to social and economic development;
- advice on physical planning matters to ensure that future development is environmentally and aesthetically acceptable.

Figure 11

SUGGESTED ORGANISATION STRUCTURE FOR THE FALKLAND ISLANDS GOVERNMENT



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We also consider that those concerned with the Islands' development on a day to day basis would benefit from the opportunity of periodic reviews of progress and problems with a visiting development adviser.

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2. Committees of the Legislative Council and Executive Council. We suggest that the present system of Legco/Exco committees for specific subject areas should be encouraged and extended in the following ways¹:

- a. Appointment of appropriate government officials to service committees i.e., preparing papers, consulting chairmen over agendas and meeting dates, implementing decisions. *Green Patch Committee*
- b. Co-opting non-Legco/Exco members on to committees where they could make a positive contribution. For example, the Education Committee could have a co-opted teacher, parent and member of the clergy. *Education Committee*
- c. Establishing sub-committees to deal with specific aspects of broader subject matter where separate treatment and different membership would be more effective. For example a Recreational Facilities Sub-committee of a Social Affairs Committee.
- d. Providing committees with authority to approve allocations of finance from specific funds.

Of the four Legco committees in existence up to the dissolution of Legco on February 28 - Standing Finance, Development, Education and Public Accounts - that for Development will clearly have a more important role than in the past. We envisage that it would be serviced by the Development Officer and administer the Development Assistance Fund (see below under Finance) including the establishment of terms of, and criteria for, allocating concessionary finance.

Committees (and obviously some sub-committees) additional to those established by the last Legco may well be desirable¹.

123
Community councils. In Chapter 5 we have drawn attention to the absence of local government to act as a community sounding board, a training ground for future councillors, and as a forum other than Legco for consideration

¹ These may require constitutional changes.

of purely local, and often minor matters. We recommend that the establishment of local community councils should be carefully considered. These councils would be responsible for expressing local views on matters affecting the communities concerned and the Islands as a whole, and for making proposals for action in the interests of their communities as would seem necessary and practicable. It might be considered desirable to provide for travel by council members and any loss of earnings resulting from attendance at meetings or other council business. Representation by as wide as possible a cross-section of individuals and voluntary bodies should be encouraged. Experiment with one or two councils, for Stanley and an area of the camp, might be valuable initially.

174
Government relationship with FIC

In the light of FIC's dominant position in the Falklands and the need for the Falklands Government to assume a more dynamic role in the development of the Islands' economy, we consider it particularly important that FIC should seek to involve themselves in the formulation of the company's policy. We propose that discussions should be held between the Government and FIC to determine the institutional solution which is most likely to ensure that the interests of the Falkland Islanders are given due weight in all the major decisions of the company.

FINANCE FOR DEVELOPMENT

Forms of development assistance

As we indicated in Chapter 15, the Falklands Government relies to a considerable extent on UK assistance in funding its development expenditure. UK development assistance to the Falklands takes a number of forms.

The construction of the permanent airfield is being financed by direct grant from HMG and UK aid to the Falklands has historically been in grant form. However, it is now proposed, under Ministry of Overseas Development criteria based on per capita income, that future aid should take the form of "soft" loans.

HMG also provides experts and consultants to the Falklands under Technical Assistance programmes. In addition, OSAS supplements are paid to UK expatriates working in the Falklands.

Since the terms of the "soft" loans are extremely favourable (equating with a 76.6 per cent grant element¹) we can see no reasonable objection to HMG's proposed policy of using such loans as the normal form of aid to the Falklands. However, we consider that major infrastructural projects (such as the permanent airfield and the proposed extension) should still rank for direct grant assistance. We envisage that aid under Technical Assistance programmes will continue to be given to the Falklands and that qualifying personnel working in the Islands will receive OSAS supplements.

We have assumed that the UK will remain the main outside source of development funds for the Islands, but the possibility of obtaining aid from the Commonwealth Development Corporation should be explored. There is a further possibility, when the Falklands are admitted to associate membership of the European Economic Community, that aid might be obtained from EEC.

The Falklands Government of course has its own development funds and we consider that these should be used first and foremost to finance the smaller infrastructural projects.

¹ Based on IBRD criteria.

Development expenditure

This will be considered under three heads: capital expenditure, fisheries development, and technical assistance.

Capital expenditure. The proposed development programme would require a substantial amount of Government capital spending. If fully realised, the programme would cost an estimated £5.4 million over the next 5 years. The scale of expenditure we envisage may appear large in relation to the current size of population in the Falklands, but we would take the view that this is both appropriate in relation to the apparent resource potential and justified in the light of the long history of fund transfer out of the Islands to the UK (see Chapter 3) and the resultant benefit to the UK exchequer.

Our estimates of the sums required and the timing of expenditure must, by the very nature of the programme, be tentative since in many cases further investigation, feasibility studies or design studies are required before accurate estimates can be made. Equally tentative must be our proposals on funding and the balance of contributions from external aid and colony funds.

Table 76 sets out our tentative proposals for capital expenditure for the period 1976/77 to 1980/81¹ both from UK aid (or other aid sources where possible) and colony funds. Our capital expenditure programme assumes the establishment of a commercial bank in Stanley for private sector loan finance (which will, in some instances, be linked with the Development Assistance Fund).

The main grant item proposed is an estimated sum of £3.5 million (taken as the middle point of the £3-4 million cost estimates) for the extension of the permanent airfield. We would propose that the Stanley School Boarding house (£250,000) and the road construction unit costs (£1 million) should also be funded by direct grant. All other items grouped under UK aid would, we propose, be financed by means of soft loans. We suggest that the cost of the proposed fencing subsidy should be funded partly by aid and partly from colony funds. Companies or individuals, as the case may be, should be expected to contribute at least 50 per cent of the cost of any approved fencing schemes which qualify for subsidy.

¹ The timing of expenditure is related to the FIG financial year.

The amount we have included in respect of the Development Assistance fund, is, of course, notional and may need to be revised in the light of the volume of new projects which are generated. Disbursements from the fund should be highly discretionary and, without pre-empting the policies which will be formulated by FIG officials for the disbursement of fund monies, we would suggest that the flexible approach adopted by the Highlands and Islands Development Board towards project financing would provide a valuable paradigm.

We have provided £75,000 in 1977/78 and again in 1979/80 for the purchase of new aircraft for FIGAS, but clearly this expenditure will very much depend on the types of aircraft which are purchased. However, it is worth pointing out that expenditure on this item would have been required without any of our new development proposals. FIG's current capital expenditure programme includes a provision of £60,000 for this item; a figure we consider rather low.

The medical equipment which we suggest should be funded by aid is X-ray equipment for Stanley hospital. The medical equipment grouped under colony expenditure includes £5,000 for camp medical kits which might possibly be purchased by the farm companies.

Table 76. Tentative Estimates of
Development Expenditure Capital Budget 1976/77-1980/81
(£'000)

UK aid	Total	76/77	77/78	78/79	79/80	80/81
<u>High priority projects</u>						
Grassland Trials Unit- additional capital costs	15	15				
Fencing subsidy	75	15	15	15	15	15
Extension to airfield	3,500	1,000	2,500			
Stanley school boarding house	250	50	200			
Tourism publicity	15		5	5	5	
Development Assistance Fund	80		20	20	20	20
New aircraft: FIGAS	150		75		75	
<u>Medium priority projects</u>						
Medical equipment	30		30			
Patients' hostel	35		20	15		
Road construction unit	1,000		200	300	300	200
Total UK aid	<u>5,150</u>	<u>1,080</u>	<u>3,065</u>	<u>355</u>	<u>415</u>	<u>235</u>
<u>Colony funds</u>						
Fencing subsidy	25	5	5	5	5	5
Filtration plant tanks & reservoir fencing	11	11				
Passenger shelter public jetty	2	2				
Toilets in Stanley	5	5				
Tourism information facilities	2	2				
Higher education & training grants & scholarships	37	3	6	8	10	10
Stanley roads repair & improvement	18		9	9		
Medical equipment & hospital improvement	37	5	10	10	6	6
Housing provision	80		20	20	20	20
Social development fund	20		5	5	5	5
Video-cassette production equipment	4			4		
Total Colony funds	<u>241</u>	<u>33</u>	<u>55</u>	<u>61</u>	<u>46</u>	<u>46</u>
Total capital expenditure	<u>5,391</u>	<u>1,113</u>	<u>3,120</u>	<u>416</u>	<u>461</u>	<u>281</u>

Table 76. Tentative Estimates of Proposed UK Technical Assistance*, 1976/77-1980/81
('000)

	<u>Total</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>
Development Officer	32.0		8.0	8.0	8.0	8.0
Salaries Revision Commissioner*2	3.5				3.5	
Cost of Living Index Revision*2	5.0		5.0			
Agricultural Officer	32.0		8.0	8.0	8.0	8.0
Grassland Trials Unit - additional staff	36.0	8.0	14.0	14.0		
Horticultural Adviser*2	3.5		3.5			
Wool Marketing Adviser*2	10.0		10.0			
Meat collection and freezing feasibility study*2	20.0				20.0	
Knitwear production organi- sation and marketing study*2	10.0		5.0	5.0		
Internal Air Service feas- ibility evaluation*2	5.0	5.0				
Social worker	9.0		4.5	4.5		
Video-cassette feasibility study*2	5.0	5.0				
Tourism development study	15.0	5.0	10.0			
Tourism promoters	18.0		6.0	12.0		
Road construction engineer*2	12.0		6.0	6.0		
Community education officer	18.0			6.0	6.0	6.0
Total	<u>234.0</u>	<u>23.0</u>	<u>80.0</u>	<u>63.5</u>	<u>45.5</u>	<u>22.0</u>

* Includes estimates for passages of individual officers. *2 Short-term survey by individual expert or small team.

Source: EIU.

The amount we have provided for Government housing expenditure is a round-sum estimate which may well require revision as the local housing situation changes.

We would point out that our capital expenditure estimates do not include items, such as the new radio telephone system, already provided for in approved colony estimates.

Fisheries Development. Table 76 does not include spending on fisheries development. This we regard as a special item which would need to be financed directly by HMG. Spending on a fisheries exploration programme might amount to £1-£1.5 million over two years. A follow-up Pilot Project at a later date could require further financing by the UK of the order of £6 million.

There was also a recommendation relating to oil development for expenditure of around £1,000 to acquire further geophysical information on offshore areas.

Technical Assistance. Table 77 sets out our tentative proposals for staff and experts funded under UK Technical Assistance. As we have mentioned already there may well be a possibility of obtaining assistance from other agencies. The estimates exclude the OSAS salary and passage costs for existing staff and no attempt has been made to forecast the outcome of the proposed review of OSAS terms and their possible extension as suggested in Chapter 19, Manpower and Population.

The Chief Executive's salary has not been included in Table 77 with those of the Development and Agricultural Officers under Technical Assistance. We felt that, because of the importance and the necessity for permanence of this position in the future government of the Falkland Islands, that, from the start of his appointment, the Chief Executive should be on the payroll of the FIG. The salary would probably be in the region of £12,000 a year, a proportion of which, in the early years at least, could possibly be met under OSAS.

Most of the new posts in the development programme have been treated as eligible for UK Technical Assistance. Some will become permanent established posts on the FIG payroll, but this is not envisaged during the initial 5-year development period¹. After 1981, the effects of new investment should be reflected in increased Government fiscal resources which should be sufficient to expand the civil service on a permanent basis.

Other studies have been recommended or suggested in the course of the Report, but have not been costed in the Table either because they are more tentative in nature, or possibly because they could be funded and carried out from other sources - universities for example. In either case, further consideration by the Chief Executive and the Development Officer, if appointed, would be required before firm recommendations for study could be made.

Total expenditure. The portion of the combined capital and recurrent expenditure necessary to finance the full development programme which we recommend should be met by the UK amounts to £5.4 million over the next five years. The recommended exploratory fishing programme would add a further £1-1.5 million, and HMG support for any subsequent pilot fishing project might require financial aid of up to £6 million. As has been pointed out, the timing and phasing of a pilot scheme could well not occur in the next five years, and the criteria for justifying offshore fisheries exploitation do not lie entirely within the context of the Falkland Islands' future development.

¹ Except in the case of the social worker, the cost of whom should be borne by FIG after the first 2 years.

GOVERNMENT RECURRENT FINANCES

Our recommendations for the economic development of the Falkland Islands will, if implemented, undoubtedly lead to increases in FIG recurrent expenditure. We have recommended the creation of a number of new posts which will become additional recurrent charges on FIG funds over the next five years. Among these are those of the Chief Executive, the Development Officer and Agricultural Officer. As mentioned in the previous section, the Chief Executive would probably have a proportion of his salary met under OSAS, and in the initial period of development it seems appropriate that the costs of the latter two posts be met under UK Technical Aid.

Furthermore, the additional net operating costs of the permanent airfield, if extended, could eventually be of the order of £100,000 a year. And if any Camp roads are constructed, there would eventually be maintenance costs associated with them (see both Chapter 10 - Future development of transport, and Chapter 19 - under Transport recommendations).

It was pointed out in Chapter 15 that FIG is likely to experience difficulty in balancing its budget in future years when wool prices are depressed, even without the additional expenditure we are proposing. Clearly, therefore, additional revenue will have to be raised if a regular deficit is to be avoided.

The possibilities for increasing FIG recurrent revenues were discussed in Chapter 15 and we now recommend that serious consideration should be given to the following.

125 1. Company taxation

An increase of 5 per cent (to 45 per cent) in the company tax rate should yield about £60,000 in additional revenue to the Government in a "good" year, such as 1975/76. This should be accompanied, as recommended in Chapters 15 and 19, by increases in the rates of capital allowances, so that Falkland registered companies are not discouraged from ploughing back their profits into fixed capital investment in the Falklands.

It would probably be inadvisable to increase the company tax rate by more than 5 per cent at present because a higher rate might mean that the UK registered companies would be faced with a higher tax bill in the Falklands than in the UK¹. Since these companies offset the Falklands' tax payment against their UK assessment, an excess of Falklands' tax would tend to operate as a disincentive to invest and produce more income in the Falklands.

126 2. Personal taxation

There is scope for a modest increase in personal taxation, as follows:

- a. the value of benefits in kind should be reviewed by Government and revised upwards to reflect more nearly their true worth to recipients;
- b. the rates of personal taxation should be increased, but in our view the increase in the lower rates (15 per cent, 20 per cent and 25 per cent) should be no more than 2.5 per cent while the increase in the higher rates (30 per cent, 35 per cent, 40 per cent and 45 per cent) should not exceed 5 per cent. If increases of this order are made, we would suggest the simultaneous introduction of a small income relief to avoid the collection of very small amounts of tax from very small incomes.

We estimate that these increases in personal taxation would produce additional revenue of about £15,000-20,000 per annum.

If the level of infrastructure and social services are built up in line with our recommendations, FIG will be justified in some further increase of the level of personal taxation.

¹ Although the UK standard rate of corporation tax is 52 per cent, the capital allowances in UK are so much more generous than in the Falklands than the effective differential is probably not much more than 5 per cent overall.

127
3. Import duties

There are opportunities currently for some increase in import duties.

We suggest, for example, that the duty on beer be increased from 11p to 20p per gallon and that an ad valorem duty of 20 per cent should be imposed on selected luxury goods including perfumery and cosmetics, cameras and photographic equipment, watches and clocks, gramophones and tape recorders and jewellery (as proposed in the Comben and Waller Report). The estimated additional revenue to Government from these proposals would be approximately £10,000 per annum.

128
4. Philately

The Government should give serious consideration to the appointment of a UK firm of stamp dealers as their philatelic marketing agent. Any such arrangement should, as discussed in Chapter 15, contain provisions to safeguard the philatelic reputation of the Falklands.

It is estimated that a new marketing strategy could considerably improve present revenue from philately and possibly enhance Government income from this source by as much as £50,000 per annum.

129
5. Increased licence fees for wildlife exports

If the controlled export of live specimens is resumed and licence fees are increased, the Falklands Government might reasonably expect an annual income of £5,000 to £10,000 from this source.

130
6. Other sources

There are some other sources from which increases in revenue could be derived (such as the Dependencies' contribution to FIG administrative costs and Harbour Dues) but these are relatively small. Any future revenue from seigniorage, though possibly substantial in some years, is likely to be erratic.

1

In addition to the foregoing proposals for enhancing Government recurrent revenue, the Government's net expenditure on services could be reduced - in the following ways.

131 1. Increasing charges for certain services

We consider that there is scope for increasing Stanley rates to reflect the true cost to the Government of providing municipal services and water supply. Furthermore, the Government should review the extent to which it subsidises other services, with a view to recouping a higher proportion of their cost. We are thinking in particular of:-

- telecommunications (telephone and the new R/T, when installed);
- postal services;
- FIGAS mileage rates.

132 2. Introduction of compulsory health insurance

A compulsory health insurance scheme, with weekly contributions from employers and employees, together with a flat-rate prescription charge, might be expected to meet approximately half the recurrent expenditure on medical services. Clearly, the details of such a scheme would require careful consideration but we favour it in principle, and the annual contributions could be of the order of £50,000 without imposing an undue burden either on employees or employers.

CONCLUDING REMARKS

It will be apparent to anyone who reads the whole of this report that the economic development of the Falkland Islands is inextricably mixed up with social considerations and it is not possible to separate the purely economic and the social aspects of a number of our recommendations. In this and the preceding chapter we have set forth many recommendations - great and small - for the development of the Falkland Islands together with proposals relating both to the machinery for implementation and to the financing of those recommendations.

In conclusion, however, we would stress that the economic development of the Falkland Islands on the lines we propose will ultimately depend for its success upon the degree of local commitment to the future of the Islands. By this we mean a commitment not only on the part of those who live and work in the Islands but also by those who have investments and derive benefit from the wealth created within the Falklands.

Taking into account the historic economic contribution of the Falklands to the British economy as well as current needs, we believe that there is a strong case for UK aid to future development of the Falklands, but this aid will not succeed in its long-term purpose unless it is accompanied locally by action to reverse past policies which have contributed to the present state of economic decline. In particular, there must be a change in the pattern of investment by the companies operating in the Falklands and by the Falkland Islanders themselves. A greater preparedness on the part of these groups to plough back increasing proportions of locally-generated funds into local investment, and so progressively reduce the outflow of funds to the UK, would not only be the best demonstration of their commitment to the future of the Islands but would also help to ensure the prosperity of that future. The Falkland Islands' Government should provide the necessary encouragement and guidance for this change of direction in the Falklands' economy.

APPENDIX 4 - OIL LICENSING POLICY

Argentinian oil and gas exploration policy. As was mentioned in Chapter 7, Argentinian policy on oil exploration/production has had a chequered and uncertain history in which participating oil companies have more than once been invited in by one Government to be dismissed by another with the result that oil production has experienced peaks¹ and troughs. Since 1972 production has declined to its current level of about 400 thousand barrels/day, of which about 70 per cent is produced by YPF, 29 per cent by contractors and 1 per cent by the old concessionaires. It is thought unlikely that Argentina would reverse its policy of exclusion of foreign oil companies from a share in oil production, yet at the same time it is unable to finance a large deep offshore drilling campaign of its own. YPF is expecting delivery of one semi-submersible drilling rig from France in May 1976 (the previous order having sunk en route), with which it is expected to drill in the Austral and western section of the Malvinas Basins.

Future Argentinian exploration policy may well be influenced by any success which Petrobras, the Brazilian state oil company, achieves with its recent invitation to oil companies to enter into risk exploration/ production contracts. This is a departure from previous Brazilian oil policy, which historically has been even more nationalistic than that of Argentina.

Offshore exploration/production licensing options. This section will discuss the relative economic advantages and disadvantages of different licensing arrangements in the offshore Falklands area by considering the conditions and what is known of the potential of the area in relation to the economic and demographic situation of the Falkland Islands. Political objectives with respect to oil exploration policy clearly lie with HMG, though they too are necessarily a function of economic possibilities.

¹ This was most marked in the early 1960s, when, as a result of authorisation by the Frondizi government for YPF to enter into exploration/production service contracts with foreign oil companies, oil production climbed by 50 per cent so that by 1962 Argentina imported only 8 per cent of its oil requirements.

With a large virgin area such as the Malvinas Basin and possibly, the Burdwood Bank, the forms of drilling/production licensing which have been adopted for the last 5 rounds in the North Sea would be inappropriate. Even if non-exclusive prospecting licenses were issued, say for 3 years, before exploration/production licensing, which would allow extensive seismic surveying to be carried out, it is doubtful whether, with the vastly varying conditions of the area compared with the North Sea and the inevitable lesser amount of geophysical and geological knowledge, direct allocations or auction of blocks to applicants under fixed royalty and tax levels would be very successful in gaining a response without making the terms too generous. A Government interest of 51 per cent (or more) would be an unacceptable financial risk.

It is worth pointing out that without extensive seismic work first being carried out, there would only be a limited response to an exploration drilling and production licence, unless the terms of the latter were unreasonably generous. This work can either be carried out by a seismic contractor for a fee, whose results could then be sold by Government to oil companies; or secondly, by allowing any oil company to carry out seismic surveys on condition that the results were made available to both Argentinian and Falkland Island governments. The latter approach is normally adopted and it is possible, though unlikely, that Argentina might agree in the future for this to be undertaken without a further commitment at the time to joint exploration/production.

Production-sharing agreements historically have been the form of licensing most popular for offshore exploration in new areas. Under this type of arrangement the licensee undertakes all the risks for a given exploration commitment, and normally all the costs, in return for a guaranteed proportion of any oil that is produced. In Indonesia, this proportion varied according to the level of production from 35 per cent down to 32½ per cent, and in later contracts was lowered to 30 per cent to 25.4 per cent. In all cases, except the last, costs were entirely borne by the companies. In other areas, e.g. Egypt, Lebanon and Syria, the split goes up to 80-20 per cent and, in a few cases 85-15 (after an allowance of maximum 40 per cent of sales revenue being devoted to costs). The right balance depends on the hydrocarbon potential and conditions of the area.

In most of these agreements the state can take its share of production in kind or money, so that production sharing would not be wholly inappropriate for the Falklands, since the Islands would not necessarily be landed with the responsibility of having to dispose of large quantities of crude oil.

Another, and perhaps more appropriate form of licensing would be the concession type agreement adopted by Denmark for its Western Greenland area. Here the companies undertake an exploration programme over a given area for ten years extensible to another ten, with a commitment to spend a certain amount of cash on exploration which, if unfulfilled is paid to the Greenland government at the end of the period. The companies also pay a small acreage fee for their exploration permit. Once a discovery is made, a production concession can be applied for and be granted for up to 30 years. The terms for production are a $12\frac{1}{2}$ per cent royalty, a tax of 55 per cent (including company tax) and a state option to obtain up to 50 per cent equity interest on a "carried" interest basis. The "carried" interest approach is much favoured by Norway who were particularly responsible for advising Denmark over the terms. It is a good method by which to achieve the political objectives of participation with no prior financial risk to the Government since it can await the results of exploration drilling by the companies before it decides to take up its option. From the point of view of the Falkland Islands, the concession type of agreement with modifications would seem to offer certain advantages, namely:

1. A large exploration commitment could be gained over a suitably long time period. This would ensure the area was properly explored and provide certain economic gain for the Islands (including acreage fee) over a reasonable length of time.
2. No prior financial risks.
3. UK government political objectives could be satisfied with a "carried" interest up to whatever level is considered desirable in the circumstances.
4. The level of "carried" interest and tax rate could be made flexible according to the size of the field discovered.

One way of proceeding is to offer minimum acceptable exploration terms (in the sense of exploration commitment, fee etc) to companies, inviting a response. According to the extent to which the response improved upon the minimum terms offered and by whom - experience of companies in offshore exploration is important - so the allocation of areas and terms could be set.

There is little point in being more specific on licensing policy at this stage. By the time any agreement to cooperate on offshore exploration is reached, if such a development occurs, it will be necessary to consider Argentina's oil policy at that time, the advice and capability within the British National Oil Corporation, as a result of its North Sea experience, that could be made available to the Falkland Islands Government, and what more is known of the prospects of the area. The necessary development and environment control provisions would also need to be built in the license terms finally offered, and would be an important element of prior discussions with Argentina.

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TO: Superintendent of Civil Aviation
 Mr. P. King
 Mr. P. J. Mould (8)
 Mr. H. M. Milne
 Lt. Col. the Hon. R.V. Goss
 OBE, ED.,
 Mr. L. J. Halliday, Harbour Master
 P.S. to the Governor
 Miss M. Howl
 R/T Operator
 Mr. L. Butler
 Broadcast Officer

5th January, 1976

ECONOMIC SURVEY : PROGRAMME FOR 6TH JANUARY

Camp Programme

<u>Date & time</u>	<u>Function. Location etc.</u>	<u>Members Concerned</u>
6th January 0900	By Beaver from Darwin to San Carlos	Lord Shackleton R. Storey G. Eddy D. Keeling Miss M. Howl
Lunch	At San Carlos with the Hon. A. B. Monk and Mrs. Monk	"
a.m.	By Beaver from San Carlos to Ajax Bay and return	Mr. G. Eddy
After lunch	By Beaver from San Carlos to Port San Carlos	Lord Shackleton R. Storey G. Eddy D. Keeling Miss M. Howl
p.m. (arrive 5.30 p.m.)	By Beaver from Port San Carlos to Stanley	"

Stanley Programme

0900	Mr. H. Milne, Stanley Manager, F.I.C. at F.I.C. offices	Mr. P.J. Mould Mr. P. Williams
9900	Mr. L. Butler, Slaughter House	Mr. H. Williams
0900	L. J. Halliday, Harbour Master, Secretariat	Mr. R. Johnson
1400	Lt. Col. the Hon. R.V. Goss, OBE, ED. General Employees' Union Office	Mr. H. Williams Mr. R. Johnson
1900	Drinks Party, Government House	All

ACTION REQUIRED

1.	Superintendent of Civil Aviation	Arrange flights
2.	Broadcast Officer	Broadcast for 5th January
3.	Others	Acknowledge

TO: Mr. P. King

I have received EA/4 and taken action/noted as required.

Date

Signature

