



FALKLAND ISLANDS ECONOMIC DEVELOPMENT STRATEGY

PART A

SETTING THE SCENE



Developing a sustainable economic future for the Falkland Islands

Contents

- a) Introduction
- b) Common Themes
- c) Agricultural Industry Assessment
- d) Fisheries Industry Assessment
- e) Services Industry Assessment
- f) Tourism Industry Assessment
- g) New Industries Assessment
- h) Conclusions
- i) Appendices

SECTION A: Introduction

The following paper is a compilation and summary of the work done throughout Part A of the process to devise a long-term economic development strategy for the Falkland Islands. The terms of reference for this section were as follows:

Detail the:

1. Current state of the industry sector
 - a. What are the sub-sectors?
 - b. Volume, value of output & avg growth rates
 - Baseline Gross Value Added
 - Baseline output volumes
 - Growth trends
 - c. Employment numbers
 - d. Tax and fiscal contribution

2. Produce detailed industry SWOT analysis
(address the following areas: economic (labour availability, wages, operating cost), investment & finance, marketing & distribution, fiscal/tax, social, infrastructure, environmental, external & other factors)

3. Gap Analysis
 - a. What are the industry's weak spots, vulnerabilities and areas of concern?
 - *internal factors & trends (company / industry sub-group / industry-wide?)*
 - *external factors & trends (economy-wide? domestic / regional / global?)*

 - b. Identify areas of potential increases in value added (output) and productivity gains and how to attain these (vertically/deepening; horizontally/broadening; or efficiency/productivity)

 - c. Based on existing business plans (if any), what are the industry's investment and capital needs? How much will come from internal funds/retained earnings and/or from external sources (amount and/or %-age split, options and possible sources)?

 - d. What are the technical and labour issues that affect or limit industry's sustained growth and expansion? (technology? skills? management capacity?)

4. Collate sector findings and prepare industry assessment report (6-7 page summary).

Overarching Targets

To ensure the availability of a sufficient number of jobs for the population of the Islands.

To create an environment whereby individual income is maximised (and retirement is provided for).

The ability for FIG to fund the desired level and standard of public services

SECTION B: Common Themes

The following bullet points detail the common themes coming out of the 5 Industry Assessments that follow within this document (defined as issues that were raised by 2 or more of the 5 industry groups, listed in order of number of industries that raised them):

- More reliable and robust telecommunications required to support better working practices and facilitate opportunities for growth.
- Requirement for easier access to financial capital for development as well as start-ups.
- Targeted infrastructure development based on revenues raised from related sources e.g. Landing fees go towards developing the public jetty area for tourism growth.

SECTION C

Agricultural Industry Assessment

FALKLAND ISLANDS AGRICULTURAL INDUSTRY

INDUSTRY ASSESSMENT

OVERALL ANNUAL GROWTH TARGET: 3%

1.0 Executive Summary

The Falkland Islands wool industry has over recent years evolved from a mainly coarse wool industry to a finer average micron wool industry through the introduction and selection of fine wool dual purpose sheep genetics. As a consequence farmers' returns per kilogram of greasy wool have increased in value. Continued fining up of the wool clip will provide further price growth.

Lamb and mutton exports have shown significant growth from a fledgling industry in 2004 to in excess of 30,000 lambs and sheep exported in 2008. This diversification from the previous wool only industry has provided and will in the future provide significant alternative income for farmers.

There is economic growth potential for the domestic beef market and significant long term growth potential for a European Union export beef market which the Falkland Islands has recently achieved accreditation for.

Horticultural production has growth potential to replace imported produce that could be grown here.

2.0 Main Sectors & Sub-Sectors

The Agricultural industry in the islands is made up of the following sectors:

Wool
Export lamb and mutton
Domestic beef, lamb and mutton
Contracting and services to agriculture
Genetic seed stock production (superior rams and bulls)
Horticulture
Specialist production (dairy, poultry and pork)
Hay cropping for sale

Table 1. Greasy wool exports and value since 1998.

| Year | Kg | Growth | Value £/Kg | Growth | Gross Value £ |
|----------------|------------------|---------|---------------|---------|------------------|
| 1998 | 2,003,857 | | 1.22* | | "1,253,233 |
| 1999 | 2,140,322 | 6.81% | 0.83* | -31.97% | "1,278,513 |
| 2000 | 2,025,491 | -5.37% | 0.93* | 12.05% | "1,501,074 |
| 2001 | 2,327,297 | 14.90% | 0.99 | 6.4% | 2,302,821 |
| 2002 | 2,096,036 | -9.94% | 1.46 | 47.91% | 3,067,627 |
| 2003 | 1,781,734 | -15.00% | 1.84 | 25.88% | 3,282,436 |
| 2004 | 2,063,977 | 15.84% | 1.23 | -33.35% | 2,534,392 |
| 2005 | 1,794,380 | -13.06% | 1.27 | 3.83% | 2,287,707 |
| 2006 | 1,716,290 | -4.35% | 1.34 | 4.79% | 2,292,987 |
| 2007 | 1,735,225 | 1.10% | 1.42 | 7.64% | 2,456,145 |
| 2008 | 1,526,363 | -12.04% | 1.77 | 24.97% | 2,700,069 |
| Average | 1,965,724 | | 1.26 | | 2,268,819 |
| CGR | -1.59% | | 1.66% | | |

*Estimated values because a significant number of farms failed to submit wool returns in these years
 " Underestimates for the same reason

Table 2. Meat production from FIMCo (Sheep includes both mutton and lamb)

| Year | Export Sheep | Growth | Domestic Sheep | Growth | Domestic cattle | Growth |
|----------------|---------------|---------|----------------|---------|-----------------|---------|
| 2003 | | | 1,008 | | 60 | |
| 2004 | 21,466 | | 1,400 | 38.89% | 80 | 33.33% |
| 2005 | 23,268 | 8.39% | 1,860 | 32.86% | 50 | -37.50% |
| 2006 | 33,574 | 44.29% | 1,564 | -15.91% | 385 | 670.00% |
| 2007 | 34,276 | 2.09% | 1,932 | 23.53% | 312 | -18.96% |
| 2008 | 30,029 | -12.39% | 1,699 | -12.06% | 362 | 16.03% |
| Average | 28,523 | | 1,577 | | 208.17 | |
| CGR | 6.94% | | 9.09% | | 34.93% | |

The total value of all meat will be the sum of that processed at FIMCo plus that processed in Camp. Typical values are about £16-20 for lamb, £6-9 for mutton and £280-340 for beef.

Table 3. Total Sheep and Cattle numbers in the Falkland Islands

| Year | Total Sheep | Change | Total Cattle | Change |
|------|-------------|--------|--------------|---------|
| 1998 | 707,596 | | 4,439 | |
| 1999 | 707,982 | 0.05% | 4,864 | 9.57% |
| 2000 | 669,805 | -5.39% | 4,688 | -3.62% |
| 2001 | 642,745 | -4.04% | 5,012 | 6.91% |
| 2002 | 612,845 | -4.65% | 5,150 | 2.75% |
| 2003 | 583,357 | -4.81% | 5,282 | 2.56% |
| 2004 | 586,467 | 0.53% | 5,757 | 8.99% |
| 2005 | 580,764 | -0.97% | 6,577 | 14.24% |
| 2006 | 540,026 | -7.01% | 6,362 | -3.27% |
| 2007 | 530,990 | -1.67% | 6,251 | -1.74% |
| 2008 | 505,534 | -4.79% | 5,525 | -11.61% |

2.0 Gross Value Added and Turnover for the Agricultural Industry

2.1 Value Added

- Baseline GVA: £2,308,592

Table 4. Gross Value added figures in Agriculture

Table 4. Gross Value added figures in Agriculture

| Value Added | Current Prices | Current Prices | Constant Prices | Cosntant Prices |
|----------------|------------------|----------------|------------------|-----------------|
| | £ | % Growth | £ | % Growth |
| 1998 | 1,280,355 | | 1,280,355 | |
| 1999 | 663,334 | -48.19% | 640,194 | -50.00% |
| 2000 | 997,041 | 50.31% | 978,447 | 52.84% |
| 2001 | 1,126,006 | 12.93% | 1,151,764 | 17.71% |
| 2002 | 1,375,859 | 22.19% | 1,486,802 | 29.09% |
| 2003 | 1,771,149 | 28.73% | 2,179,513 | 46.59% |
| 2004 | 772,871 | -56.36% | 933,124 | -57.19% |
| 2005 | 1,093,764 | 41.52% | 1,324,773 | 41.97% |
| 2006 | 1,317,316 | 20.44% | 1,703,114 | 28.56% |
| 2007 | 1,753,598 | 33.12% | 2,308,592 | 35.55% |
| Average | 1,215,129 | 11.6% | 1,398,668 | 16.1% |
| CGR | | 3.2% | | 6.8% |

2.2 Trends & Conclusions

- ◇ Wool is by far the largest agricultural sector
- ◇ World fluctuations in wool prices have the most dramatic effect on wool income between years.
- ◇ Some growth in price can be attributed to the reduction in micron over the years.
- ◇ Further price growth is dependent on wool price increases (out of our control) and a continuing fining up of the wool clip (within our control).
- ◇ Gross incomes could be grown by running more sheep or selecting or feeding for more wool per sheep.
- ◇ Much of the reduction in sheep numbers is due to a reduction in the number of mature wool growing wethers rather than breeding ewes.
- ◇ The reduction in the volume of wool sold is due to sheep numbers falling over the same period.
- ◇ Some of the increase in cattle numbers is due to some cattle missing slaughter specifications and then having little commercial use.
- ◇ The Falklands began meat exports in 2003 and has also at the same time consolidated a domestic meat industry. Growth is possible by expanding the export of sheep meats, exporting beef, and by increasing domestic meat sales.
- ◇ The Falklands produce a relatively small, lean but good quality lamb so long as minimal fat levels are achieved. Mutton quality is excellent but this is not a lucrative market. A major limitation to meat quality is pre-slaughter management of livestock from outlying areas.
- ◇ Currently there are significant quantities of beef and horticultural products imported that could be produced here and this indicates some additional growth potential, although the Falklands will never be fully self reliant particularly due to seasonal restraints.

3.0 Employment

Table 5. People employed in the Agricultural Sector

| | East | | West | | Islands | | Total | |
|----------------|---------------|--------|---------------|--------|---------------|--------|---------------|--------|
| | People | Growth | People | Growth | People | Growth | People | Growth |
| 1996 | 104 | | 57 | | 15 | | 176 | |
| 1997 | 84 | -19.2% | 65 | 14.0% | 20 | 33.3% | 169 | -4.0% |
| 1998 | 97 | 15.5% | 62 | -4.6% | 20 | 0.0% | 179 | 5.9% |
| 1999 | 77 | -20.6% | 55 | -11.3% | 17 | -15.0% | 149 | -16.8% |
| 2000 | 82 | 6.5% | 53 | -3.6% | 18 | 5.9% | 153 | 2.7% |
| 2001 | 97 | 18.3% | 43 | -18.9% | 15 | -16.7% | 155 | 1.3% |
| 2002 | 108 | 11.3% | 52 | 20.9% | 17 | 13.3% | 177 | 14.2% |
| 2003 | 85 | -21.3% | 38 | -26.9% | 12 | -29.4% | 135 | -23.7% |
| 2004 | 85 | 0.0% | 50 | 31.6% | 21 | 75.0% | 156 | 15.6% |
| 2005 | 83 | -2.4% | 62 | 24.0% | 14 | -33.3% | 159 | 1.9% |
| 2006 | 83 | 0.0% | 46 | -25.8% | 11 | -21.4% | 140 | -11.9% |
| 2007 | 81 | -2.4% | 45 | -2.2% | 13 | 18.2% | 139 | -0.7% |
| Average | 89 | | 52 | | 16 | | 157.25 | |
| CGR | -2.06% | | -1.95% | | -1.19% | | -1.95% | |

3.1 Trends & Conclusions

- ◇ The majority of Falkland farms are owned and run as a family business with family members providing the bulk of the permanent labour force.
- ◇ The farm labour force fluctuates dramatically with a small long term reduction in the number employed as people retire or find work elsewhere.
- ◇ Contract labour is often used for shearing, fencing or tractor work and is often difficult to source particularly at peak times of the year.

4.0 Global Trends

4.1 Wool Industry

- Global wool production continues to decline as the profitability of producing wool relative to lamb and mutton worsens. Reducing wool demand attributed to the global economic downturn has led to a further reduction in world wool producing flocks particularly non breeding (dry) sheep
- International wool prices are forecast to increase in 2010 and in the medium term renewed consumer spending will lead to stronger demand for wool and prices are expected to rebound quickly due to low world wool supplies
- Production of shorn wool is forecast to show growth from 2011-12 through to 2014 as producers retain more wethers in response to stronger demand and higher prices for wool
- The outlook for organically produced finer wool is for a premium price over non organic wool both in the short and longer term

4.2 Sheep Meat Industry

- Global lamb prices are forecast to remain high in 2009-10 due to tight supply and strong international consumer demand which is expected to strengthen in the medium term
- Mutton prices over the medium term are expected to remain steady as supply tightens and the demand for mutton and sheep for breeding remains strong
- Reduced flock numbers in the major lamb exporting countries through drought, high levels of live sheep export and lower profitability of wool production will be beneficial to Falkland Island lamb and mutton exports in the short and medium term
- In the long term future with the farms that have achieved organic accreditation the potential to increase premiums for marketing organic lamb over traditional lamb production is likely

4.3 Beef Industry

- In the long term EU beef export prices are likely to remain steady but will be affected by the quantities supplied by Brazil and other South American countries as they meet traceability and disease control requirements of the EU
- Manufacturing and food service industry export beef prices ex the Falkland Islands in the short to medium term are good.
- Farms that are accredited for organic production in the future will have the potential to increase export premiums for beef over that of traditionally produced beef from the Falkland Islands. Forecast organic beef consumption in the UK market in 2010 is for 17-21,000 tonnes equivalent to 1.8-2.0% of UK beef consumption.

5.0 SWOT Analysis

| Key Strengths | Key Weaknesses |
|---|---|
| <ul style="list-style-type: none"> • Experienced, resourceful and committed rural population • Unspoilt, clean, natural environment • Strong community spirit • Self employed lifestyle • Extensive land area available for farming • Virtually organic farming systems with low input cost • 24 hour wind power • Transport system (Roads, ferry, FIGAS) and infrastructure • Excellent international image | <ul style="list-style-type: none"> • Remote farms with difficult transport and service logistics • Distance to markets (Domestic and exports) • Fragile ecosystem, poor soils, low rainfall, climate problems • Little farm diversification • Over reliant on wool price • Hard to access labour in camp • Communications is problematic • Infrastructure issues (e.g. jetties) • Poor access to finance to replace essential capital items • Land values • Limited private capital and low income levels • Business skills & education • Reliant on expensive fuel • Size of markets • Hard to sustain flock sizes • No formal, ongoing training • Aging rural population |
| Key Opportunities | Key Threats |
| <ul style="list-style-type: none"> • Improve access to services • Further development of integrated transport systems • Increase stock numbers • Adopting new farming practices • Diversification by; <ul style="list-style-type: none"> • <i>Increased sales to FIMCo</i> • <i>Organic certification</i> • <i>Meat sheep breeds</i> • <i>Horticulture</i> • <i>Aquaculture</i> • <i>Poultry, pigs etc</i> • <i>Increased beef production</i> • <i>Compost</i> • <i>Farmers markets</i> • <i>Peat export</i> • <i>Value adding; use of culls, wool scouring, animal waste products</i> • <i>Tourism</i> | <ul style="list-style-type: none"> • Reduction in services (e.g. transport or communications) • Political support (e.g. funding for abattoir, FIP) • Invasive plants & animals • Adverse reaction from tourism industry • Continuity of supply for markets • Increases in farm sizes to survive • Abattoir selection & pricing • Continual cost/price squeeze • Loss of farming land to other uses • Possible changes due to climate change |

5.1 Gap Analysis

Internal Factors

The soils and climate in the Falkland Islands are such that intensive agricultural production is difficult without huge inputs. The extensive grazing systems that have evolved under these constraints have focussed highly on sheep production predominantly for wool, with some lamb, mutton and beef. Large areas are involved for relatively little production and the travelling (e.g. when gathering or taking product to market) is expensive, although improvements to the road network has improved this issue. The Farm Improvement Scheme has been assisting farmers to create specialised areas of re-seeded pastures for improving the nutrition of young stock particularly, and to promote better grazing management practices.

Breeding ewe numbers are not increasing significantly and the decision by most to keep all female lambs for breeding is a sensible one in the long term but limits lamb slaughter potential in the short term.

Diversification of farm enterprise is important from a commodity price risk management, labour management and pasture utilisation perspective. Unfortunately other forms of diversification such as cropping, forestry and horticulture have only a limited success here. FIMCo is the only abattoir as such, however there are a number of farms selling home processed meat as well. Whilst FIMCo could expand its domestic production to substitute farm kill, there is also a significant beef import for which it could substitute home grown product if sufficient quantities and quality were available.

Much of the infrastructure on farms relates to sheep, often with excellent yards, sheds and fences but the facilities required for diversification beyond wool and sheep meat production are limited and require significant capital investment.

External Factors

The Falklands produces a very small proportion of the world wool market. Freight to markets is always expensive. Wool prices fluctuate regularly and there is little in the way of marketing or research that could influence this. The finer the wool though, the higher its value will be. Reducing the fibre diameter of wool is virtually the only way we can work to improve its value consistently. There is little else, other than organic accreditation where possible, to increase wool prices. Quality wool clip preparation, testing and sale by description, and selecting sheep for pure white wool is all very well developed here.

The Falklands have found export markets for lamb and mutton, and could presumably do so too for beef if sufficient levels could be produced.

Potential Future Development

Recent deepening in the sheep industry, driven in a large part by the purchase and development of the National Stud Flock some years ago has concentrated on producing dual purpose sheep, with improved meat and wool production traits. The reduction of wool fibre diameter by genetic selection is a slow, but permanent way to increase wool values. Just as the price of wool fluctuates, so too does the micron premium. In the range of 27-23 microns the extra value will be from 20-50 p/kg/micron reduction. With 1.6 Million kilograms sold annually a one micron drop across the board will return £3-800,000 wool income.

Currently there are 10 farms in the Organic program. The outlook for organic wool and meat is good and it is anticipated these will sell at premium prices once production is fully accredited. Issues with parasite control, pasture and crop fertilizers and artificial breeding are inhibiting many others from joining the scheme.

The recent growth of domestic beef processed by FIMCo should be encouraged to continue, particularly to replace import substitution. On the domestic market the whole carcass needs to be marketable. While there is over 5 tonnes of high quality beef steaks imported, there is an even greater quantity of beef burgers and sausages also imported so there is room for growth even without increasing domestic beef consumption.

Increasing beef production needs to be done carefully, with good cooperation between all players to ensure market supply and demand are grown in unison. It takes a number of years to produce a prime steer for processing, so herd increases will be slow by necessity, but should also be steady by design.

The smaller industries such as horticulture, pig and poultry production, and dairy can be important areas of broadening for some farms and have a vital import substitution role. So too could value adding the products currently produced (processed woollen products, small goods, cheeses etc). All require high operating costs (fertilizers, labour, feeds etc) and capital investment, but guarded encouragement should be given to businesses venturing into these areas.

It is unknown how the effects of climate change will affect Falkland Island agriculture at this stage other than the impact on rising water levels which will reduce land mass. Currently the climate is considered fairly cold and dry. A warmer, wetter climate could be beneficial to agriculture, however a more volatile and variable climate would be detrimental.

Potential Future Investment

Falkland Island farms are well set up for extensive grazing enterprises, specifically sheep, although some improvements are needed if more sheep sales are to occur. Also most farms are now serviced by constructed roads, albeit with some time of year restrictions on vehicle size.

In order to broaden into meat production there will need to be a capital development program on many farms. Specific requirements are

- Improved sheep yards and cattle yards
- Cattle crush
- Loading ramps
- Cattle and sheep scales

Breeding cow numbers will also need to be increased, but there is no reason the current growth rate of 16% could not continue given proper incentives and planning. If this occurred slaughter numbers at FIMCo could be doubled within 5 years. It is unlikely there would be a surplus to export until then unless the growing of the domestic market was unsuccessful.

Whilst some horticulture (potatoes, turnips, carrots etc) can be grown in well fertilized sheltered outside areas, more exotic crops (tomatoes, cucumber, lettuce etc) may need glass houses or poly tunnels which come at considerable expense- but can also be good commercial and profitable businesses. There is also a significant export substitution market for horticultural products, however production here is very seasonal.

There are possibly some limited areas where some new commercial crops could be grown (berries, rhubarb etc) with lesser investments, but expectations of success should be guarded.

Aquaculture research is being conducted but this is a big commercial industry world wide, and much research needs to be done to develop economic business models for the Falkland Islands.

Piggeries and poultry farms will have no shortage of market demand in Stanley, however they too require high capital investments, and unfortunately also demand high operating costs with feed imports, so import substitution may be not very economic.

SECTION D

Fisheries Industry Assessment

1. Current state of the sector:

- 1.1 The Falkland Islands fishery industry is a young industry growing from the implementation of the initial fisheries conservation zone in 1987. The sector has grown since that time and the most significant recent development has been the introduction of transferable fishing rights in 2005. These were given effect by the new fisheries law [The Fisheries (Conservation and Management) Ordinance 2005].
- 1.2 The register of Individual Transferable Quota (ITQ) holdings at 28 April 2009, is appended as Annex I. This table shows that there are currently 10 fisheries of which 8 have entered the ITQ system, *Illex* and Scallops have yet to do so. A Grenadier fishery could be created increasing the number of fisheries to 11. The first fisheries (*Loligo* and Toothfish) entered the ITQ system in mid-2006. Most other fisheries entered the ITQ system at the start of 2008. All quota granted thus far has a common expiry date of 30 June 2031.
- 1.3 Annex I shows that there are 15 fishing companies which hold quota in one or more fisheries. Two companies hold provisional quota. There have been 3 trades of quota so far, which has resulted in two companies originally allocated quota leaving the fishery, one new company being registered, and one partial transfer of quota between companies.
- 1.4 The ability to trade quota is a very significant feature of the new system. The 3 transfers registered so far represent a significant volume of quota. The new fisheries law creates a more rational economic environment for the fisheries sector as evidenced by these trades. It was anticipated that efficiency and progress would be facilitated through the creation of long term transferable rights which does appear to be happening.
- 1.5 The majority of fishing companies are private companies with relatively low numbers of shareholders and employees (the 2006 census records 44 persons who class their primary occupation as fishing. Total employment on fishing vessels could equate to c. 1400 FTEs). There are two fishing companies operating as public companies. The majority of Falkland Island fishing companies follow the model of having a wholly Falkland Island owned quota owning or parent company. This company participates to varying degrees in one or more joint ventures which own or charter fishing vessels. The Falkland participation in such JVs must be at least 25.1%. (At the height of FI flag vessel involvement in the *Loligo* fishery the 16 vessel fleet had average local participation of 39%). In most cases the foreign partner is a Spanish fishing company. Whilst this appears to be the common business model it was to some extent created and maintained by both previous fisheries policy

and new fisheries law. The exception to this model is one company which is entirely locally owned and operated, and wholly owns its one fishing vessel.

- 1.6 In addition to 'mainstream' fishing companies there is an important service sector involving a handful of companies which provide vessel agency, launch services, port services, re-supply, crew change, logistics, etc. In most cases these services are not exclusive to the fisheries sector but are also utilised by other sectors; tourism and agriculture for example.
- 1.7 There are currently 20 fishing vessels (18 trawlers, 2 longliners) registered in the Falkland Islands. FI ownership of these vessels varies from 25.1% to 100%. The FI fishery, excluding *Illex*, typically involves 40-50 different vessels. The number of days fished suggests that c. 21 vessels would be required to fish the number of days per annum currently fished in the FI fishery (this assumes each vessel fishes for 10 months). On the face of it the FI fleet could be fully utilised with little downtime to take the majority of the catch from FI zones. However, the fleet is not immediately configured to do that. In the longer term there are issues relating to the benefits to FI plc of having a FI registered fishing fleet and what advantages that gives to the operators of such vessels.
- 1.8 The majority of FI fishing company turnover is generated from products which are in a 'processed' onboard fishing vessel state; so whole *Loligo* and fillet or H&G fish products. A number of companies have involvement in Vigo based storage, repacking, re-glazing, distribution and logistic operations, either through joint venture ownership, or through an arrangement with the Spain based JV partner. There is limited vertical integration. Some companies do have involvement with downstream processing and retailing activities although products largely involve the primary fish/squid product, rather than highly processed, added value products.
- 1.9 A recent study on Management Effectiveness of the World's Marine Fisheries [Mora et al (2009). PLoS Biol 7(6)] recorded that "only two relatively small EEZs, those of the Faroe and Falkland Islands, were in the top quarter for all the indicators of scientific robustness, policy making transparency, and implementation capabilities". The probability of sustainable catches in the Falkland Islands was estimated at 95%.

1.10 Contribution from Fisheries to the entire Falkland Islands Economy (GDP):

| FALKLAND ISLANDS FISHERIES INDUSTRY | | |
|-------------------------------------|------------------------|------------------|
| | Real GDP Contribution* | % of Total FIGDP |
| 1998 | £45,095,415 | 59% |
| 1999 | £37,074,509 | 52% |
| 2000 | £68,643,746 | 67% |
| 2001 | £61,237,967 | 65% |
| 2002 | £31,041,732 | 47% |
| 2003 | £62,180,406 | 62% |
| 2004 | £40,718,305 | 52% |
| 2005 | £77,727,750 | 68% |
| 2006 | £65,961,406 | 64% |
| 2007 | £65,379,868 | 60% |

* These numbers are fixed at 1998 prices - have been adjusted for price movements.

1.11 Sector Data:

- Annex 1** Register of ITQ holdings (Number of fisheries; identifies all quota holders).
- Annex 2** Licence allocations by year.
- Annex 3** Catch Summary Tables
- Annex 4** Summary of license types and periods of application
- Annex 5** Financial data
- Annex 6** Glossary of Terms

2. SWOT Analysis:

Strengths

1. Local political stability and UK based legal framework
2. Size of fishery (possible to exploit economies of scale)
3. Fishery is well managed (although there is growing concern about reduction in level of resources directed at it, and reservations regarding the impact of

the current FIG restructuring which will involve the DoF in responsibility for Agriculture in addition to the Management of the Fishery).

4. Stable long term ITQ system providing security of tenure – market beginning to operate
5. Joint Venture arrangements bringing access to core markets, capacity building, skills and experience and financial strength. It is also argued that the FI have successfully developed an industry which is enhancing the use of a natural resource in a non labour intensive (as it relates to the FI population) way which has been appropriate for a country with little available labour
6. World demand for seafood increasing
7. Developed network of international contacts

Weaknesses

1. Regional political situation
2. No organic growth – no identity and skill base of a fishing nation, although there is a developing awareness of the nature of the industry in the population there is still an almost complete lack of comprehension of the achievements, challenges, level of risk financial and operational risk and an exaggerated view of the resources available to industry participants.
3. Diversity of stocks – significant concentration on squid (80%)
4. Control over stock – significant part is straddling stock
5. No RFMO in SWA – nor scientific exchange on which to base assessments
6. Limited shore based infrastructure –
 - a. lack of adequate port – berthing – layup – coldstores – dock space etc
 - b. Inadequate marine engineering facilities
 - c. Expensive fuel
 - d. Expensive services – eg fuel and electricity
 - e. Lack of most ancillary services
 - f. Lack of labour of all levels of skill and knowledge
7. Distance to market (although effect can be overstated)
8. Communications – telecommunications and Airlinks
9. Access to capital
10. Over reliance on Joint Venture partners (to the extent that areas of the industry may be dominated by their JV partner, but there is strongly held view in industry that public perception is uncomprehending of the complexities of the industry, the challenges faced, risk exposure and the progress being made since the recent introduction of the ITQ system)
11. Age of current fleet

Opportunities

1. Development of new markets
2. Direct selling from Falklands
3. Aquaculture
4. New port and container link related opportunities – expansion of direct shipments, direct sales, product handling, marine services, vessel lay-up etc

(all of these operations have been already undertaken at a level commensurate with the lack of adequate infrastructure)

5. Commercial co-operation between local companies including its swaps, leasing, operational co-operation
6. Increasing local shareholding in companies – current ratio foreign/local holdings a consequence of history

Threats

1. Climate change – oceanographic conditions – ecosystem collapse
2. Global economy fluctuations
3. FI economy/FIG operating budget in deficit
4. International competition – in many cases from competitors with access to a wide range of subsidies
5. Risks:
 - a. Currency
 - b. Credit
 - c. Fuel price
 - d. Increased reliance on Fishing Industry to fund FIG
6. Campaign against bottom trawling
7. Lack of adequate regulation of essential services delivered by monopolies in FI
8. Over fishing of straddling stocks in Argentina and/or high seas

3. GAP Analysis – Analysis of actual Vs potential performance:

Weak spots, vulnerability and areas of concern

1. Communications – shipping – air links – telecoms
2. Port Infrastructure – marine services – ancillary services
3. Finance – fleet replacement – working capital
4. Regional political issues
5. Control and ownership over operation, distribution and selling

6. International competitors with lower cost base and access to subsidies
7. Growth of aquaculture based products in market
8. FIG taxation and Fiscal policy
9. FIG resource fees
10. Reduction in capacity of Fisheries Department due to budget cuts/FIG restructuring
11. Impact on market perception of FI product due to erosion of scientific resources available to DoF

12. Level of available skills and experience in FI and cost of importing these

Potential added value areas

1. Landing to FI port
2. Product processing
3. Distribution from Falklands to market
4. Selling from Falklands
5. Aquaculture
6. Ecommerce
7. Vessel lay-up and marine services
8. Cost Reduction
9. ITQ transfers leading to improved efficiency

Investment and capital needs (excluding illex):

1. Vessel replacement capital (£400m – based on £8m x 50)
2. Working capital (£50m based on £1m x 50)
3. Port ancillary infrastructure (£10m minimum)
4. Accommodation and social services associated with any significant importation of required skills and knowledge (significant in this context could mean only relatively few people)
5. Upgrading technology on existing vessels

Technical and labour constraints

1. Unskilled labour difficult and expensive to obtain (although there may be a slight easing of this situation if Government Capital expenditure programmes are reduced and there is some discussion as to the actual difference in labour costs between FI and other, developed, countries)
2. Inadequate appropriately skilled labour – virtually none of the many knowledge based positions involved would be readily filled by local recruitment
3. Engineering facilities and skills difficult to obtain
4. Current telecoms links barely adequate – IT skills in short supply (as an example selling any quantity of product regularly, accessing large databases etc requires fast and accurate links and even the limited sales operations carried out now are impeded by problems making telephone connections – callers to the Falklands very frequently complain that they cannot get through – and the relatively slow data speeds achievable on the existing system)

4. Summary:

- a) Total green weight catches are typically around 200,000 tonnes and an estimated first sale value of £140 million. Fishing access fees in '07/08 were £14.23 million of which c. £10 million is due to quota fisheries (excluding *Illex* and Scallops). There are 15 fishing companies which operate and own quota in the fishery.
- b) The industry has a number of advantages and challenges as set out in the SWOT and GAP analysis.

- c) There has been very significant recent change with the introduction of the ITQ system, and the industry is still acclimatising to that. The reefer container link to Uruguay provides opportunities if it can be sustained for the long term. The development of port infrastructure would provide a more secure and flexible base for the industry.

Annex 2 – License Allocations by Year

Table B.1 Licence allocations by licence type and year

| LICENCE | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|---------|------------|------------|------------|------------|------------|------------|------------|------------|
| A | 40 | 33 | 17 | 13 | 4 | 10 | 5 | 5 |
| B | 161 | 144 | 170 | 165 | 156 | 164 | 120 | 113 |
| C | 46 | 38 | 16 | 20 | 21 | 22 | 17 | 19 |
| E | 8 | 5 | . | 2 | 1 | 6 | 6 | 5 |
| F | . | . | . | . | . | . | 4 | 5 |
| G | . | . | . | . | . | . | . | . |
| L | . | . | . | . | . | . | . | . |
| R | . | . | . | . | . | 9 | 10 | 11 |
| S | . | . | . | . | . | . | . | . |
| W | . | . | 11 | 16 | 14 | 30 | 29 | 28 |
| X | 23 | 20 | 19 | 23 | 30 | 27 | 23 | 24 |
| Y | 70 | 17 | 15 | 6 | 5 | 10 | 9 | 6 |
| Z | 24 | 35 | 40 | 46 | 43 | 47 | 60 | 43 |
| | 372 | 292 | 288 | 291 | 274 | 325 | 283 | 259 |

| LICENCE | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---------|------------|------------|------------|------------|------------|------------|------------|------------|
| A | 4 | 9 | 11 | 10 | 6 | 6 | 6 | 8 |
| B | 92 | 79 | 86 | 109 | 116 | 125 | 122 | 89 |
| C | 15 | 14 | 17 | 17 | 16 | 17 | 16 | 16 |
| E | 6 | 9 | 8 | 5 | 1 | 1 | 8 | 9 |
| F | . | . | . | 4 | 1 | 9 | 4 | 7 |
| G | 19 | 27 | 30 | 16 | 19 | 19 | 24 | 17 |
| L | . | . | . | 3 | 6 | 6 | 8 | 5 |
| R | 10 | 2 | 8 | 7 | 9 | 8 | 10 | 11 |
| S | . | . | 2 | 3 | 3 | 4 | 3 | 4 |
| W | 9 | 16 | 21 | 11 | 13 | 11 | 23 | 25 |
| X | 21 | 20 | 18 | 15 | 19 | 17 | 18 | 17 |
| Y | 11 | 8 | 8 | 4 | 8 | 8 | 12 | 10 |
| Z | 36 | 27 | 34 | 27 | 18 | 19 | 22 | 22 |
| | 223 | 211 | 243 | 231 | 235 | 250 | 276 | 240 |

| LICENCE | 2005 | 2006 | 2007 | 2008 |
|---------|------------|------------|------------|------------|
| A* | 9 | 11 | 10 | 23 |
| B | 70 | 43 | 57 | 44 |
| C | 17 | 16 | 16 | 17 |
| E | 11 | 8 | 6 | 4 |
| F | 4 | . | 1 | 8*** |
| G | 14 | 20 | 18 | 23 |
| L | 4 | 6 | 6 | 2 |
| R | 11 | 11 | 10 | . |
| S | 2 | 2 | 2 | 3 |
| W** | 17 | 21 | 14 | 27 |
| X | 16 | 16 | 17 | 20 |
| Y | 12 | 16 | 18 | . |
| Z | 18 | 24 | 25 | . |
| | 205 | 194 | 200 | 171 |

Table C.2 Total catch (tonnes) of all species by year

| SPECIES | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| BAC | 2814 | 2778 | 2880 | 7055 | 6224 | 4043 | 9084 | 6925 |
| BLU | 43468 | 72326 | 50491 | 34078 | 24900 | 38697 | 39154 | 23539 |
| ILL | 224022 | 102417 | 174745 | 160016 | 145185 | 66996 | 64122 | 79724 |
| KIN | 977 | 850 | 949 | 1952 | 1643 | 899 | 1985 | 1682 |
| LOL | 118720 | 82990 | 53817 | 83384 | 52279 | 65757 | 98417 | 61374 |
| MAR | 0 | 4 | 141 | 1 | 33 | 0 | 5803 | 111 |
| PAT | 16480 | 11900 | 6759 | 4070 | 3029 | 1414 | 1988 | 1649 |
| RAY | 1749 | 1500 | 6923 | 8108 | 8523 | 5542 | 5432 | 3475 |
| TOO | 236 | 208 | 980 | 912 | 393 | 2963 | 2069 | 685 |
| WHI | 13313 | 7553 | 4499 | 14188 | 8506 | 10064 | 15603 | 13813 |
| OTH | 5036 | 1989 | 2317 | 1192 | 890 | 423 | 1514 | 2015 |
| | 426814 | 284516 | 304503 | 314957 | 251605 | 196798 | 245172 | 194991 |

| SPECIES | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| BAC | 4649 | 8121 | 9313 | 6551 | 3896 | 2617 | 2285 | 2781 |
| BLU | 26296 | 31483 | 28564 | 23371 | 25735 | 24908 | 20798 | 28554 |
| ILL | 149763 | 84993 | 266201 | 189709 | 150631 | 13411 | 103375 | 1720 |
| KIN | 1392 | 2217 | 2602 | 1875 | 1625 | 1224 | 1275 | 1841 |
| LOL | 26122 | 51559 | 34866 | 64493 | 53560 | 23712 | 47422 | 26835 |
| MAR | 2099 | . | 29 | . | 147 | 1 | 31 | 24 |
| PAT | 1554 | 3502 | 4224 | 3069 | 1978 | 1678 | 1967 | 1926 |
| RAY | 3320 | 1077 | 4785 | 3853 | 4309 | 3364 | 3988 | 5151 |
| TOO | 1208 | 2103 | 2988 | 2318 | 1754 | 1793 | 1707 | 2002 |
| WHI | 13006 | 22378 | 18765 | 19831 | 19471 | 26970 | 23815 | 25905 |
| OTH | 916 | 3443 | 4701 | 4037 | 2018 | 1242 | 1748 | 5080 |
| ZYP | . | . | . | . | 76 | 59 | 685 | 1279 |
| | 230326 | 210874 | 377038 | 319107 | 265198 | 100979 | 209097 | 103098 |

| SPECIES | 2005 | 2006 | 2007 | 2008 |
|----------------|---------------|---------------|---------------|---------------|
| BAC | 2467 | 3469 | 5195 | 4074 |
| BLU | 17047 | 20533 | 22204 | 13220 |
| ILL | 7937 | 85614 | 161402 | 106600 |
| KIN | 1936 | 2821 | 3592 | 2224 |
| LOL | 58811 | 43067 | 42003 | 52271 |
| MAR | 0 | 0 | 0 | 0 |
| HAK | . | 8414** | 11,908** | 8817** |
| PAT | 2735* | 23*** | 0*** | 0*** |
| RAY | 5698 | 4679 | 5663 | 3858 |
| TOO | 1677 | 1572 | 1519 | 1429 |
| WHI | 16721 | 19761 | 16669 | 15910 |
| GRX | . | 797 | 622 | 932 |
| COX | . | 20211 | 30157 | 60209 |
| ZYP | 1358 | 1161 | 14 | 6 |
| OTH | 10717 | 1133 | 1099 | 775 |
| | 127104 | 213256 | 302046 | 270325 |

Annex 3 – Annual Catch by License Type

Table C.2 Total catch (tonnes) of all species by year

| SPECIES | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|---------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| BAC | 2814 | 2778 | 2880 | 7055 | 6224 | 4043 | 9084 | 6925 |
| BLU | 43468 | 72326 | 50491 | 34078 | 24900 | 38697 | 39154 | 23539 |
| ILL | 224022 | 102417 | 174745 | 160016 | 145185 | 66996 | 64122 | 79724 |
| KIN | 977 | 850 | 949 | 1952 | 1643 | 899 | 1985 | 1682 |
| LOL | 118720 | 82990 | 53817 | 83384 | 52279 | 65757 | 98417 | 61374 |
| MAR | 0 | 4 | 141 | 1 | 33 | 0 | 5803 | 111 |
| PAT | 16480 | 11900 | 6759 | 4070 | 3029 | 1414 | 1988 | 1649 |
| RAY | 1749 | 1500 | 6923 | 8108 | 8523 | 5542 | 5432 | 3475 |
| TOO | 236 | 208 | 980 | 912 | 393 | 2963 | 2069 | 685 |
| WHI | 13313 | 7553 | 4499 | 14188 | 8506 | 10064 | 15603 | 13813 |
| OTH | 5036 | 1989 | 2317 | 1192 | 890 | 423 | 1514 | 2015 |
| | 426814 | 284516 | 304503 | 314957 | 251605 | 196798 | 245172 | 194991 |

| SPECIES | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| BAC | 4649 | 8121 | 9313 | 6551 | 3896 | 2617 | 2285 | 2781 |
| BLU | 26296 | 31483 | 28564 | 23371 | 25735 | 24908 | 20798 | 28554 |
| ILL | 149763 | 84993 | 266201 | 189709 | 150631 | 13411 | 103375 | 1720 |
| KIN | 1392 | 2217 | 2602 | 1875 | 1625 | 1224 | 1275 | 1841 |
| LOL | 26122 | 51559 | 34866 | 64493 | 53560 | 23712 | 47422 | 26835 |
| MAR | 2099 | . | 29 | . | 147 | 1 | 31 | 24 |
| PAT | 1554 | 3502 | 4224 | 3069 | 1978 | 1678 | 1967 | 1926 |
| RAY | 3320 | 1077 | 4785 | 3853 | 4309 | 3364 | 3988 | 5151 |
| TOO | 1208 | 2103 | 2988 | 2318 | 1754 | 1793 | 1707 | 2002 |
| WHI | 13006 | 22378 | 18765 | 19831 | 19471 | 26970 | 23815 | 25905 |
| OTH | 916 | 3443 | 4701 | 4037 | 2018 | 1242 | 1748 | 5080 |
| ZYP | . | . | . | . | 76 | 59 | 685 | 1279 |
| | 230326 | 210874 | 377038 | 319107 | 265198 | 100979 | 209097 | 103098 |

| SPECIES | 2005 | 2006 | 2007 | 2008 |
|---------|---------------|---------------|---------------|---------------|
| BAC | 2467 | 3469 | 5195 | 4074 |
| BLU | 17047 | 20533 | 22204 | 13220 |
| ILL | 7937 | 85614 | 161402 | 106600 |
| KIN | 1936 | 2821 | 3592 | 2224 |
| LOL | 58811 | 43067 | 42003 | 52271 |
| MAR | 0 | 0 | 0 | 0 |
| HAK | . | 8414** | 11,908** | 8817** |
| PAT | 2735* | 23*** | 0*** | 0*** |
| RAY | 5698 | 4679 | 5663 | 3858 |
| TOO | 1677 | 1572 | 1519 | 1429 |
| WHI | 16721 | 19761 | 16669 | 15910 |
| GRX | . | 797 | 622 | 932 |
| COX | . | 20211 | 30157 | 60209 |
| ZYP | 1358 | 1161 | 14 | 6 |
| OTH | 10717 | 1133 | 1099 | 775 |
| | 127104 | 213256 | 302046 | 270325 |

Annex 4 – License Types & Periods of Application

Table A.4 Licence types, target species and periods of application 1989 - 2008

| Licence | Target species | Period of application |
|---------------|--|-----------------------|
| First Season | | |
| A | Unrestricted fin fish | 1989 - |
| B | <i>Illex</i> squid | 1989 - 1992 |
| | <i>Illex</i> and <i>Martialia</i> squid | 1993 - |
| C | Patagonian squid (<i>Loligo</i>) | 1989 - |
| F | Skates and rays | 1995 - |
| G | <i>Illex</i> squid and restricted finfish* | 1997 - |
| W | Restricted finfish** | 1994 - |
| Second Season | | |
| R | Skate and rays | 1994 - |
| X | All species | 1989 - 1990 |
| | Patagonian squid (<i>Loligo</i>) | 1991 - |
| Y | Unrestricted fin fish | 1989 - |
| Z | Restricted finfish** | 1989 - |
| All year | | |
| E | Experimental fishery*** | 1996- |
| L | Toothfish (Longliners) | mid 1999 - |
| S | Blue Whiting and Hoki | 1999 - |

* The 'G' licence was introduced in 1997. It represents a combination of the 'B' *Illex* squid licence and 'W' restricted finfish licences. It is limited to trawlers using nets with a minimum mesh size of 90 mm.

** Restricted finfish - Main target species:

Micromesistius australis - Southern blue whiting - BLU
Macruronus magellanicus - Hoki - WHI.

*** Experimental fishing licences 'E' are issued on an occasional basis to denote exploratory or experimental fishing activities. The 'E' licence included longliners fishing for toothfish up to mid 1999, when the 'L' licence was instituted for this activity. In 2006 the 'E' licence was used to cover access to the *Loligo* fishery during the monitoring activities undertaken by single vessels. The Scallop fishery, exploratory trawl fishery for grenadiers and longline fishery for kingclip have also been operating on an E licence.

Annex 5 – Financial Summary

FALKLAND ISLANDS FISHERIES INDUSTRY

| | PROFIT & LOSS ACCOUNT | | |
|---|----------------------------------|--------------|-------------|
| | 2006 | 2007 | % Variance |
| | £M | £M | |
| Sales Revenue | 105.1 | 116.0 | 10% |
| Gross Profit | 14.6 | 18.5 | 27% |
| <i>Margin</i> | <i>14%</i> | <i>16%</i> | |
| Operating Profit | 5.3 | 9.6 | 81% |
| <i>Margin</i> | <i>5%</i> | <i>8%</i> | |
| Profit before Interest & Tax | 5.3 | 9.6 | 81% |
| Less: Tax on Ordinary Activities | 1.7 | 1.9 | 12% |
| Profit after Tax | 3.6 | 7.7 | 114% |

| | BALANCE SHEET | | |
|----------------------------|----------------------|--------------|------------|
| | 2006 | 2007 | % Variance |
| | £M | £M | |
| Fixed Assets | 97.2 | 107.9 | 11% |
| Net Current Assets | 35.4 | 35.8 | 1% |
| Loans/Creditors (> 1 year) | 42.2 | 46.1 | 9% |
| Net Assets | 90.3 | 97.6 | 8% |

| FI Fishing Companies & JV's that make up the Financial Summary | | | |
|---|----------------------------|----|--|
| 1 | Altamar Enterprises Ltd | 19 | Marsur Ltd |
| 2 | Argos Group | 20 | Nores Marine Ltd |
| 3 | Argos Marine | 21 | Nova |
| 4 | Argos Pereira Ltd | 22 | Orion Fishing Company |
| 5 | Beagle Fishing Ltd | 23 | Petrel Fishing |
| 6 | Beauchene Fishing Company | 24 | Pioneer Seafoods Ltd |
| 7 | Byron Holdings Ltd | 25 | Polar |
| 8 | Capricorn Ltd | 26 | RBC Chartering Ltd (formerly Loitador) |
| 9 | Consolidated Fisheries Ltd | 27 | RBC Ltd |
| 10 | Ferramales Ltd | 28 | South Atlantic Squid Ltd |
| 11 | FIBOW Ltd | 29 | SAMS Ltd |
| 12 | Fortuna Ltd | 30 | Seafish (Falklands) Ltd |
| 13 | Golden Touza Ltd | 31 | Seaview |
| 14 | Igueldo Fisheries (FI) Ltd | 32 | SFS Ltd |
| 15 | International Fishing Ltd | 33 | Somio Fishing Ltd |
| 16 | JK Marine | 34 | Southern Cross |
| 17 | Jupiter Fishing Company | 35 | Sullivan Shipping Services |
| 18 | Kalamar Ltd | 36 | Venturer |

Annex 6 – Glossary of Terms

Table A.2 Abbreviations for species names used in the tables

| FIFD Code | FAO Code | Scientific name | Common name |
|------------------|------------------|--|-----------------------|
| BAC | SAO | <i>Saillota australis</i> <i>Micromesistius</i> | Red cod |
| BLU | POS | <i>australis</i> | Southern blue whiting |
| COX** | PAT | <i>Patagonotothen spp</i> | Rock cod |
| GRX** | RTX | Macrouridae | Grenadiers |
| HAK*** | HKP | <i>Merluccius hubbsi</i> | Common hake |
| KIN | CUS | <i>Genypterus blacodes</i> | Kingclip |
| ILL | SQA | <i>Illex argentinus</i> | Illex squid |
| LOL | SQP | <i>Loligo gahi</i> | Patagonian squid |
| MAR | SQS | <i>Martialia hyadesi</i> Osteichthyes/Chondri | Martialia squid |
| OTH | MZZ/SKX HKX / | chthyes <i>Merluccius spp</i> | Others |
| PAT | HKN | <i>/australis*</i> | Austral Hake |
| RAY | SRX | Rajidae <i>Dissostichus</i> | Skates and rays |
| TOO | TOP | <i>eleginoides</i> <i>Macruronus</i> | Patagonian toothfish |
| WHI | GRM | <i>magellanicus</i> <i>Zygochlamys</i> | Hoki |
| ZYP | ZYP | <i>patagonica</i> | Scallop |

* - *Merluccius spp.* until 2005; *M. australis* since 2006

** - since 2006, before - in OTH; *** - since 2006, before - in PAT

SECTION E

Services Industry Assessment

1. Main Sectors

The services industry in the islands is made up of the following main sectors:

- a. Wholesale & Retail
- b. Fuel and Bunker Sales
- c. Private & Public Construction
- d. Private & Public Accommodation / Real Estate
- e. Shipping and Transport (Marine Services)
- f. Communications
- g. Financial Services (insurance, banking, accountancy)
- h. Legal Services
- i. Utilities
- j. Transport
- k. Business Support Services

The below table indicates the number of unique firms operating in each Services sub-sector (e.g. FIC is one firm, but operates in more than one sub-section so is counted more than once). However, the total at the bottom (84) is the total unique firms/self-employed rather than a direct sum of the sub-sectors.

| | No. of Firms | Notes |
|--|--------------|---|
| Wholesale & Retail | 15 | |
| Fuel and Bunker Sales | 2 | |
| Private & Public Construction | 15 | |
| Private & Public Accommodation / Real Estate | 2 | Firms or self-employed people that have as their main target Real Estate management |
| Shipping and Transport (Marine Services) | 7 | |
| Communications | 2 | |
| Financial Services (insurance, banking, accountancy) | 6 | |
| Legal Services | 3 | |
| Utilities | 3 | FIG managed or sub-contracted only. |
| Transport (haulage as well as tourism/taxis etc) | 12 | Includes water, air and land transport |
| Business Support Services (SeaLed PR, FIDC etc) | 10 | |
| Other Services | 11 | |
| TOTAL | 84 | This number includes self-employed people operating in each area. |

2. Gross Value Added and Turnover by Sector

Nominal Value Added¹

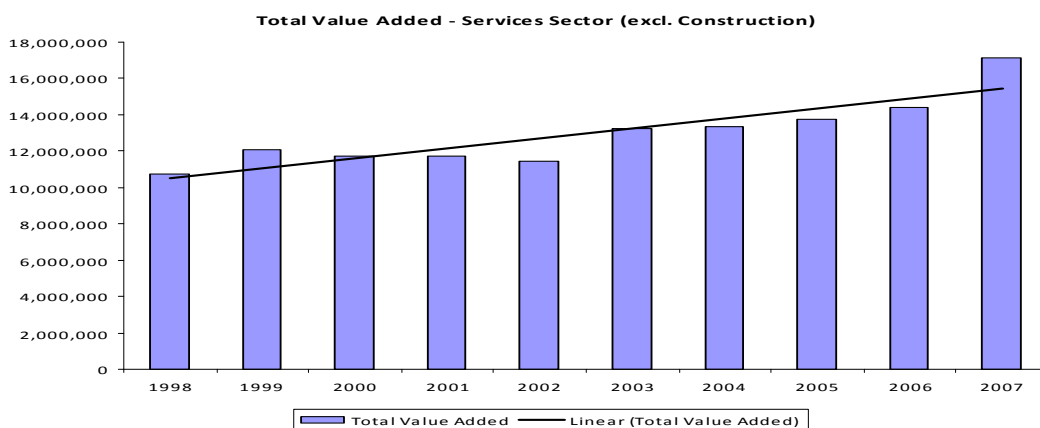
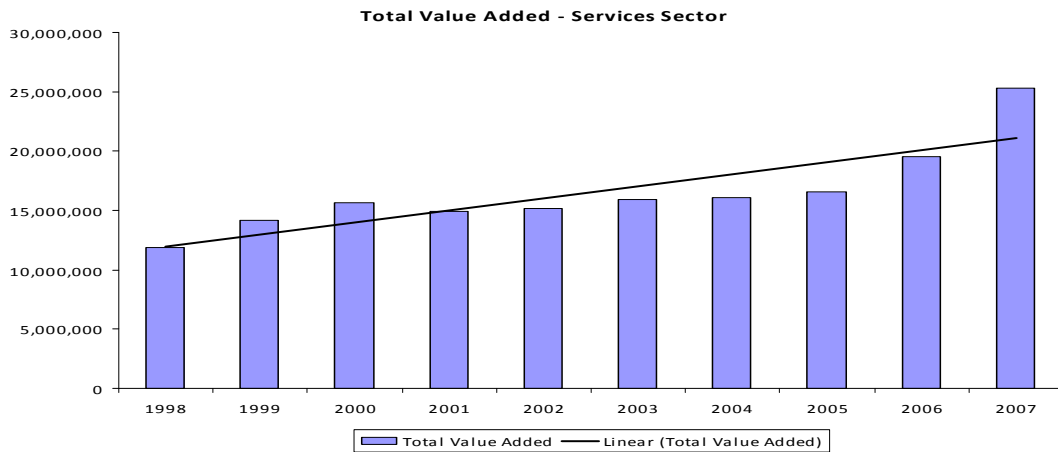
¹ Other services includes not for profits and a couple of smaller profit seeking enterprises.

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | CAGR |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------|
| Accounting & Legal Services | 183,083 | 154,351 | 167,797 | 158,278 | 197,657 | 196,809 | 96,736 | 130,777 | 129,267 | 347,763 | 7.39% |
| Business Services + IT | 1,196,918 | 1,599,267 | 1,510,808 | 1,511,212 | 1,333,440 | 1,581,106 | 1,382,689 | 1,307,184 | 1,353,012 | 1,881,391 | 5.15% |
| Communication, Finance & Fuel Dealers | 6,073,940 | 6,176,066 | 5,592,840 | 5,927,803 | 5,730,147 | 6,508,009 | 6,873,638 | 7,198,157 | 7,311,146 | 8,540,966 | 3.86% |
| Construction & Related Services | 1,185,126 | 2,074,263 | 3,934,901 | 3,176,423 | 3,749,994 | 2,676,602 | 2,727,914 | 2,836,029 | 5,154,158 | 8,172,655 | 23.93% |
| Marine Services | 944,392 | 1,695,509 | 1,774,097 | 1,694,183 | 2,334,152 | 2,588,461 | 2,790,166 | 2,550,546 | 2,986,451 | 2,674,707 | 12.26% |
| Other Services | 150,441 | 150,665 | 216,263 | 284,708 | 244,265 | 246,583 | 220,304 | 291,866 | 611,573 | 494,084 | 14.13% |
| Wholesale & Retail Trade | 3,336,080 | 3,528,876 | 3,780,949 | 3,321,875 | 2,468,078 | 3,278,857 | 3,046,698 | 3,508,428 | 3,055,982 | 4,897,131 | 4.36% |
| Total Value Added | 11,902,353 | 14,143,890 | 15,654,322 | 14,911,826 | 15,193,906 | 15,928,827 | 16,071,801 | 16,595,038 | 19,531,995 | 25,294,701 | 8.74% |

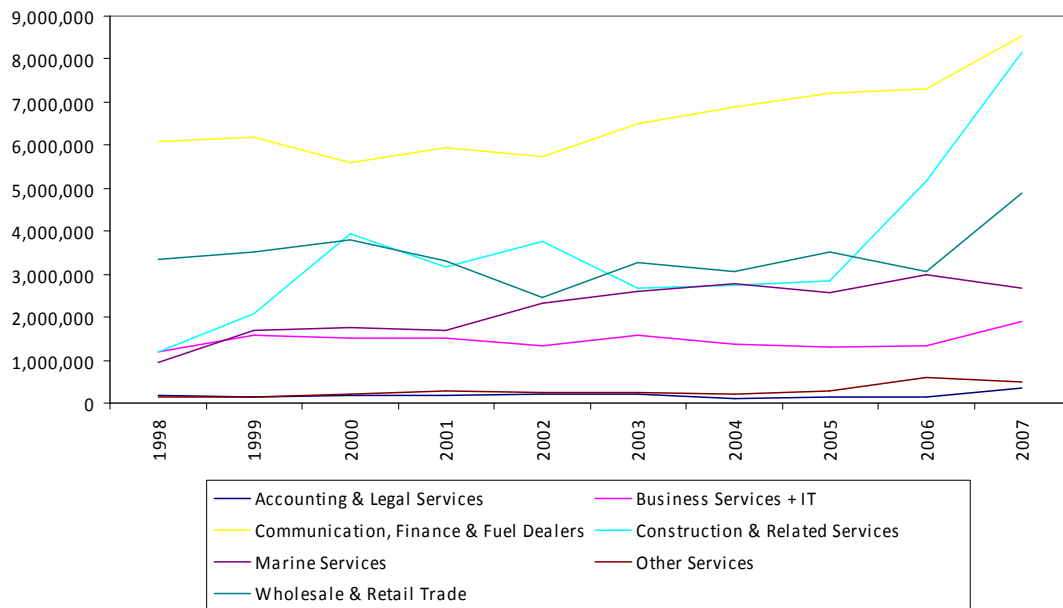
Compounded Annual Growth Rate - Other Industries (1998:2007)

- | | CAGR |
|-----------------|-------|
| 1. Agriculture: | 3% |
| 2. Tourism: | 3% |
| 3. Services | 8.74% |

Note: CAGR of Services with construction = 8.74% pa versus CAGR ex-construction = 5.09% pa. Services are more robust & less volatile/relative stability of this industry quite apparent.



Value Added by year per Sub-sector



In-focus: Construction

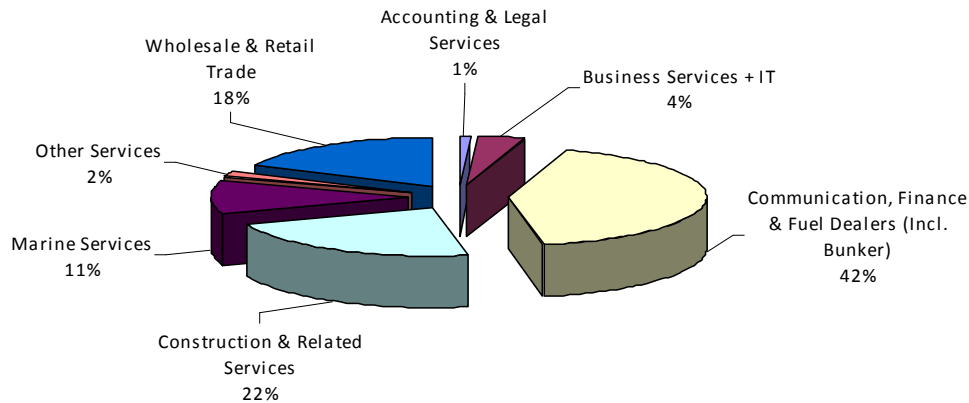
| | Construction Value Added (£'s) | | | | | | | | | | |
|--|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | CAGR |
| Total Construction | 1,185,126 | 2,074,263 | 3,934,901 | 3,176,423 | 3,749,994 | 2,676,602 | 2,727,914 | 2,836,029 | 5,154,158 | 8,172,655 | 23.93% |
| <i>FI Private Construction (excl. Overseas Income)</i> | 734,778 | 1,286,043 | 2,439,639 | 1,969,382 | 2,324,996 | 1,659,493 | 1,691,307 | 1,758,338 | 2,556,941 | 3,427,046 | 18.66% |

- The table above splits out the private element of all construction and also strips out any construction value added generated overseas (e.g. South Georgia).
- This cannot be provided in anymore detail as it would allow elements of individual firms to be identified. However, it demonstrates that private sector construction is growing at a meaningful rate, even if it is slightly below that of FIG.
- Gov't construction accounted for 38% of total construction in 1998. This grew to 58% by 2007. Gov't construction's CAGR was 29.91% pa, faster than private construction's 18.66% pa.

Turnover²

² Only 2007 numbers are shown as prior years were not available from the data collected from the tax office for 2007 GDP estimates. Also, please note that FIC's operations have been split into their constituent parts.

| 2007 | Turnover | VA/Turnover Ratio |
|---------------------------------------|--------------------|-------------------|
| Accounting & Legal Services | £583,348 | 60% |
| Business Services + IT | £2,995,349 | 63% |
| Communication, Finance & Fuel Dealers | £31,297,033 | 27% |
| Construction & Related Services | £16,289,729 | 50% |
| Marine Services | £8,044,896 | 33% |
| Other Services | £1,482,253 | 33% |
| Wholesale & Retail Trade | £13,072,703 | 37% |
| TOTAL | £73,765,311 | 34% |



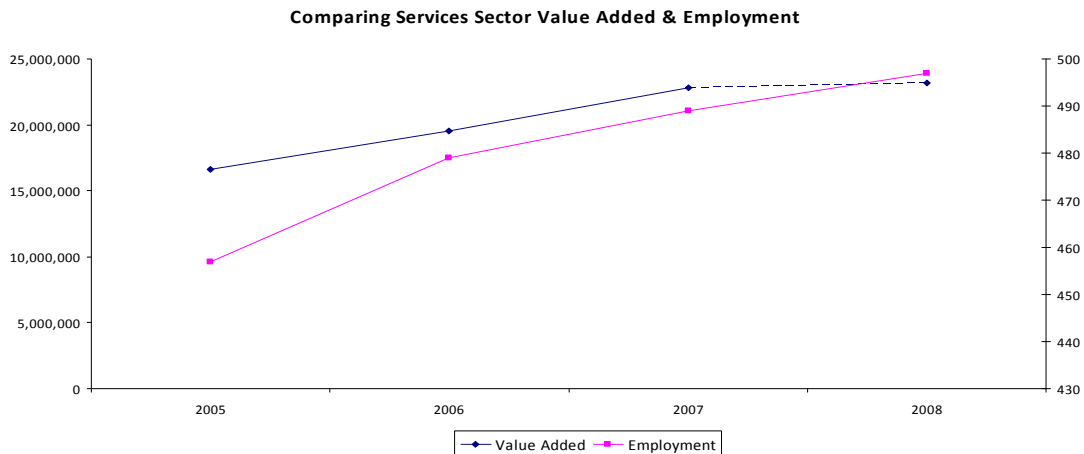
Trends & Conclusions

- ◇ There is general growth across the entire services industry. The compounded annual growth rate is 8.7%, with much of this being driven by growth in construction which has a CAGR of 24% over the 9 years.
- ◇ However, if you exclude overseas construction, the overall growth trend falls to 7%. If you were to exclude construction altogether then the CAGR for the other service sector businesses is 5.3%.
- ◇ However, this is looking at 2007 numbers, which appears to be a very strong year – if you compare 2006 to 1998, then the CAGR falls to 5%. The basic year-on-year average growth rate is 9% in total for the Services Industry.
- ◇ Services is one of the most stable sectors of the Falkland Islands Economy, with a general growth trend and maximum negative fluctuation of only 5%. Other sectors of the economy such as fisheries and agriculture have experienced negative fluctuations of up to 48% and 51% respectively. FIG expenditures also have had an economic stabilisation role that keeps services sector buoyant.
- ◇ Revenue within the Services area is understandably heavily weighted towards the single suppliers in Telecoms, Banking and Fuel Provision. The relative stability is driven more by the ‘necessity’ nature of these services rather than the fact that they are single-suppliers.

3. Other Key Performance Indicators

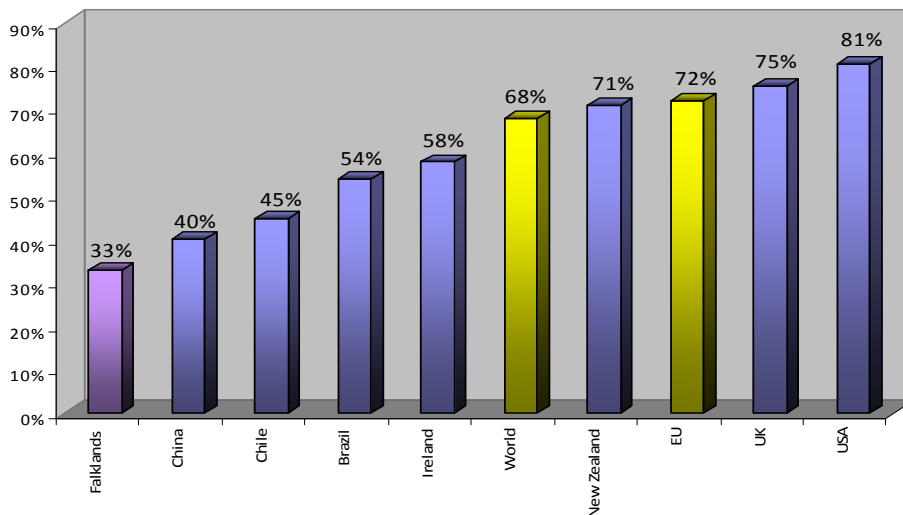
I. Employment Numbers

| | 2005 | 2006 | 2007 | 2008 |
|---|------------|------------|------------|------------|
| Communication, Finance, Fuel Dealers | 67 | 70 | 79 | 84 |
| Business Services (Incl. Legal/FIDC/IT) | 66 | 77 | 80 | 84 |
| Construction & Related Services | 100 | 109 | 112 | 114 |
| Wholesale & Retail Trade | 189 | 175 | 178 | 187 |
| Other Services/Marine Services | 35 | 48 | 40 | 28 |
| TOTAL: | 457 | 479 | 489 | 497 |
| Movement: | n/a | 5% | 2% | 2% |



II. International Benchmarks³

Percentage of GDP made up by the Services Industry*



- ◇ The services sector makes up a relatively low proportion of GDP when compared globally, however is mainly due to the dominance and size of the Fisheries industry (which makes up 60%+ of GDP year on year). When taking out Fisheries, the services sector makes up 62% of GDP (not far off the world average).

III. Key Output Volumes⁴

³ Source: The Economist, World in Facts (2008)

| Number of houses | | % Growth | Litres of Fuel Sold | | % Growth | No. of Mortgages | | % Growth | No. of Retailers | | % Growth |
|------------------|--------------|-------------|---------------------|-------------------|-------------|------------------|--------------|-------------|------------------|---------------|-------------|
| 1998 | 908 | | 1998 | | | 1998 | | | 1998 | 24 | |
| 1999 | 935 | 2.97 | 1999 | 11,561,856 | | 1999 | | | 1999 | 27 | 12.50 |
| 2000 | 962 | 2.89 | 2000 | 12,203,866 | 5.55 | 2000 | | | 2000 | 30 | 11.11 |
| 2001 | 989 | 2.81 | 2001 | 12,446,870 | 1.99 | 2001 | 247 | | 2001 | 29 | -3.33 |
| 2002 | 1,000 | 1.11 | 2002 | 12,361,022 | -0.69 | 2002 | 253 | 2.43 | 2002 | 21 | -27.59 |
| 2003 | 1,011 | 1.10 | 2003 | 12,315,855 | -0.37 | 2003 | 249 | -1.58 | 2003 | 22 | 4.76 |
| 2004 | 1,022 | 1.09 | 2004 | 12,149,064 | -1.35 | 2004 | 271 | 8.84 | 2004 | 20 | -9.09 |
| 2005 | 1,027 | 0.49 | 2005 | 12,574,270 | 3.50 | 2005 | 275 | 1.48 | 2005 | 23 | 15.00 |
| 2006 | 1,047 | 1.95 | 2006 | 12,447,112 | -1.01 | 2006 | 301 | 9.45 | 2006 | 20 | -13.04 |
| 2007 | 1,066 | 1.81 | 2007 | 11,759,502 | -5.52 | 2007 | 290 | -3.65 | 2007 | 23 | 15.00 |
| Average | 997 | 1.80 | Average | 12,202,157 | 0.26 | Average | 269 | 2.83 | Average | 24 | 0.59 |
| Comp % | 1.62% | | Comp % | 0.19% | | Comp % | 2.32% | | Comp % | -0.42% | |

| House Sales & New Builds | | | |
|--------------------------|-------|---------|-----------------------|
| | Sales | Builds* | Kit Houses Imported |
| 2005 | 15 | | |
| 2006 | 15 | 20 | |
| 2007 | 24 | 19 | 17 (£47,799 per unit) |
| 2008 | 21 | 21 | 18 (£46,576 per unit) |
| 2009 | 9 | TBC | |

* Estimates based on planning permission

| Capital Spending Estimates (2007) | | Investment per worker |
|--|--------------------|-----------------------|
| Accounting & Legal Services | £57,486 | £5,749 |
| Business Services + IT | £31,247 | £164 |
| Communication, Finance & Fuel Dealers | £560,589 | £3,548 |
| Construction, Transport & Related Services | £9,192,580 | £59,307 |
| Marine Services | £454,499 | £6,060 |
| Other Services | £344,915 | £9,581 |
| Wholesale & Retail Trade | £579,655 | £1,311 |
| TOTAL | £11,220,970 | £12,246 |
| % of Turnover | 15% | |

Note: Services industry's investment spending accounts for 45% of FI total investments, considering it only contributes 33% of GDP; this suggests the industry is building capacity, expanding its productive base and reinvesting profits for future growth and higher productivity. This will help economic expansion in the future.

| | Value Added per Employee | | |
|---------------------------------|--------------------------|----------------|----------------|
| | 2005 | 2006 | 2007 |
| Business, IT, Acc & Legal Svcs | £8,217 | £8,281 | £11,146 |
| Communication, Finance & Fuel | £44,160 | £56,240 | £54,057 |
| Construction & Related Services | £18,180 | £37,622 | £52,727 |
| Marine Services | £46,374 | £45,249 | £35,663 |
| Other Services | £6,486 | £14,916 | £13,725 |
| Wholesale & Retail Trade | £8,373 | £46,727 | £11,079 |
| Average: | £21,965 | £34,839 | £29,733 |

⁴ In the number of mortgages table, this excludes 35 loans provided by FIDC over 11 years, consisting of Commerce, training and Tourism loans.

5.0 SWOT Analysis

| | | | |
|----------------------|---|-------------------|--|
| STRENGTHS | <p><u>General strengths</u></p> <ul style="list-style-type: none"> • Benign employment laws, labour unions and working conditions • Liquid banking sector • Healthy personal debt levels and pragmatic/conservative financial culture. • Niche tourism offer, with long-term development potential • Relative Stability • Service industry benefits from the growth of other industries | WEAKNESSES | <p><u>General weaknesses</u></p> <ul style="list-style-type: none"> • Insufficient financial and political support for the service industry, especially compared to Agriculture • Restrictive immigration policy • Lack of opportunities for trained/educated locals in the service sector • Lack of competition in sole supplier markets • Small population • Diseconomies of scale due to the size of the market. • Remoteness and distance from suppliers. • High infrastructure and communication costs • Relatively high provision for government services • Not enough opportunities for private sector • Seasonality of labour market and demand • Limited commercial port facilities and air links • FIG doesn't support the private sector. • Lack of housing • Excessive and inefficient FIG spending creates unnecessary competition and could lead to a long-term fiscal imbalance • Lack of a business oriented councillor (with business as a specific portfolio) |
| OPPORTUNITIES | <p><u>General opportunities</u></p> <ul style="list-style-type: none"> • Downstream development of offshore fishing • Port development would act as a catalyst for the development for Marine Services • Containerisation • Alternative energy industries • Privatisation • MPA outsourcing services to Falkland Businesses • Product/Service development – e.g. extend tourist season • Potential in accommodation – Tourism and housing. | THREATS | <p><u>General threats</u></p> <ul style="list-style-type: none"> • The existing economic climate and global downturn • Possible depopulation of the Islands in general • Single suppliers • Economy highly susceptible to external forces (e.g. commodity markets) • Lack of infrastructure (housing etc) |

6.0 GAP Analysis

| | | |
|-------------------------------------|--|----------------|
| UTILITIES AND INFRASTRUCTURE | <p>Major Areas of Concern</p> <ol style="list-style-type: none"> 1. Lack of capital investment in physical infrastructure and transport links such as Port Facilities. 2. Current level of Telecommunications systems quality in the islands. 3. Lack of air links to and from the islands. 4. Energy rates too high for some economic activities. 5. Current road conditions are a limitation for development and can also cause costs in vehicle maintenance etc. 6. Shipping Service into a worldwide network is still in its infancy, possibly limiting some exports and imports. <p>Potential Improvements</p> <ol style="list-style-type: none"> 1. Assignment of increased FIG revenue generated to be reinvested directly into relevant industry or development infrastructure (e.g. Jetty Centre). 2. More stringent and hands-on regulation of this single supplier by FIG. Reduction in rates. Possible competitor based overseas. Or look into the possibility of opening up the telecommunications market. 3. Evaluate the viability of flights to and from Brazil and midweek flights to and from South America. 4. Discounted rates or a tiered energy pricing system, to accommodate high volume utility users. 5. Have FIG aim to maintain more often and to a higher standard. 6. Evaluate thoroughly the need for port facilities and services which make containerisation attractive. This would likely broaden shipping options and possibly improve costs due to a wider selection of importing origins. | FINANCE |
|-------------------------------------|--|----------------|

- Major Areas of Concern**
1. Lack of domestic commercial lenders and need for alternative capital markets.
 2. Lack of opportunities for Foreign Direct Investment (FDI) and manage FDI effectively when it occurs.

- Potential Improvements**
1. Creation of investment bank, bond market, venture capital funds or other similar institutions to provide competition and alternative sources in the commercial loan market. Need to ensure this area is regulated properly and effectively. It also needs to be noted that only very specific segments of industries are likely to benefit from this.
 2. Enhance Falkland's attractiveness to foreign investment by introducing investment instruments and supporting more open regulations on foreign capital investments.

| | | |
|-------------------|---|------------------|
| FIG POLICY | <p>Major Areas of Concern</p> <ol style="list-style-type: none"> 1. Overly stringent and limiting immigration and land-sale policies. 2. FIG's lack of a long-term view of return on investment. 3. MPA service contracts to be provided by local businesses and FIG. 4. High wages for unskilled work in FIG. 5. Lack of efficiency in FIG and the need for more opportunities for the private-sector. <p>Potential Improvements</p> <ol style="list-style-type: none"> 1. More open and targeted immigration strategy. Relax restrictions on seasonal labour. Fairer immigration policy on young permit holders who have been funded for HE/FE. <i>More detail to be worked out.</i> 2. FIG to minimise subsidisation of poor performing businesses/industries, subject to market forces. 3. Local businesses and FIG to provide MPA services such as provide utility services, construction, maintenance/cleaning and catering. 4. Maintain FIG unskilled wages during inflationary periods to allow the Private Sector to catch up. 5. FIG to begin the privatisation process for appropriate departments with potential. Also FIG to include more user fees. | EDUCATION |
| | <p>Major Areas of Concern</p> <ol style="list-style-type: none"> 1. Improved and more targeted training and education in the islands. 2. Lack of business teachings at school. 3. Lack of career development training. <p>Potential Improvements</p> <ol style="list-style-type: none"> 1. Islands Plan proposes to enhance certain areas and identify key areas of skills shortages. 2. Introduce mandatory Business Studies subject at school. 3. Training to be provided to suit private-sector needs. | |

SECTION F

Tourism Industry Assessment

1.0 Main Sectors & Sub-Sectors

The tourism industry in the islands is made up of the following main sectors:

- l. Accommodation (covering hotels/lodges/B&Bs)
- m. Air Services (FIGAS/Helicopters)
- n. Land Transport (local taxi, buses, rovers etc)
- o. Water Transport (water-based tours and whale-watching trips etc)
- p. Travel/Booking Agents/Banking & Communication Services
- q. Independent Tour Operators (e.g. battlefield tours, guided tours of wildlife)
- r. Retail/Wholesale/Gift Shops (e.g. FIC, Market Garden etc)
- s. Restaurants and food outlets
- t. Marine Services (e.g. launches, FIPASS services)
- u. Public Tourism-related bodies (Museum, FITB, PWD maintenance work)

The below table indicates the number of unique tax-form returning firms operating in each tourism sub-sector (e.g. FIC is one firm, but operates in more than one sub-section so is counted more than once). However, the total at the bottom (44) is the total unique firms rather than a sum of the sub-sectors. The numbers cover all firms that have some direct interaction with tourists, regardless of what % of their revenues are obtained from tourism.

| | No. of Participating Firms | Notes |
|--|----------------------------|---|
| Accommodation | 17 | There are 448 unique beds available to tourists in the islands currently. |
| Air Services | 1 | Have excluded MOD (Flights/Helicopters) from this. |
| Land Transport | 4 | |
| Water Transport | 2 | This excludes any water-based travel/activities associated with accommodation (e.g. boat trips at lodges) |
| Travel/Booking Agents/Banking & Communication Services | 5 | |
| Independent Tour Operators | 5 | |
| Retail/Wholesale/Gift Shops | 12 | |
| Restaurants and food outlets | 12 | |
| Marine Services | 3 | |
| Public Tourism-related bodies | 4 | |
| TOTAL: | 44 | This represents 33% of the total tax-form returning firms in the islands. |

Key Terms & Phrases

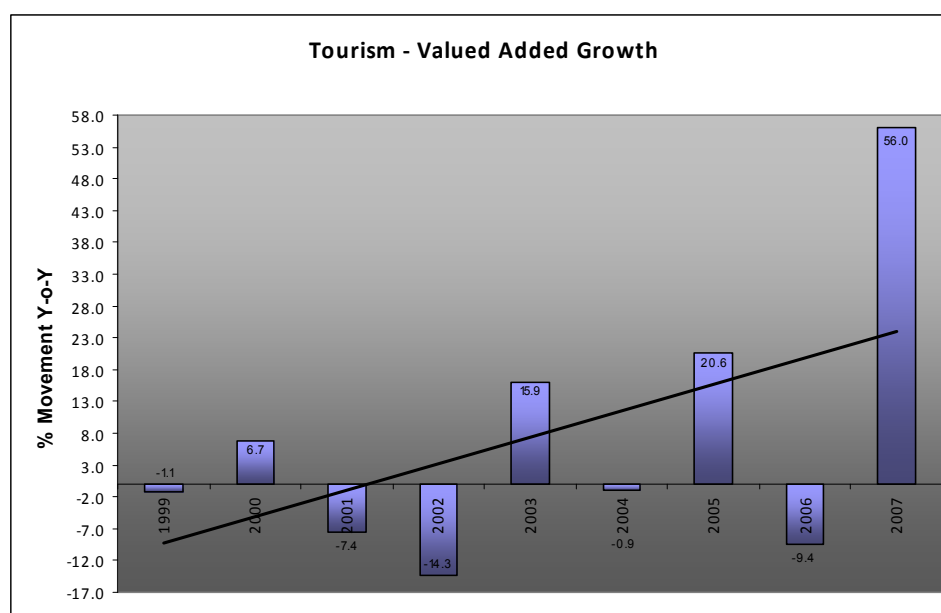
1. **Gross Value Added (GVA)** – this is an economists measure of the benefit a particular industry brings to an economy. GVA is directly equivalent to GDP, which is an international measure of productivity. GVA is calculated by summing all the wages & salaries with all the operating profits along with the depreciation charge (the ‘gross’ element) in the tourism industry. Any subsidies are then removed. ‘Value Added’ in the document is the same as Gross Value Added.
2. **Compounded Annual Growth Rate (CAGR)** – this is a measure of growth in any particular area (e.g. number of arrivals, GVA, number of employees etc). Due to the fluctuating nature of many of the industries in the Falklands, a basic year on year average growth rate becomes meaningless, so a CAGR has been adopted instead. It is calculated by looking at the first year of the available data and then working out what the average growth % each year would have needed to have been to reach the final number in the data series. E.g. if Year 1 = £10 and Year 3 = £20, then you would need a 41.5% CAGR each year to achieve those numbers (Year 2: £10 x 1.415 = £14.15; Year 3: £14.15 x 1.415 = £20.02).

2.0 Gross Value Added and Turnover for the Tourism Industry

2.1 Value Added

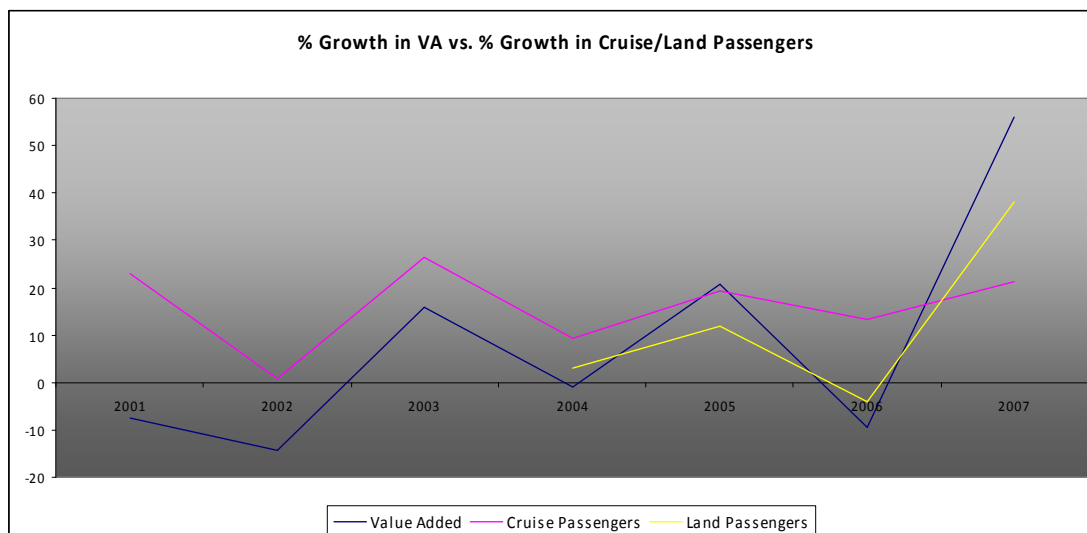
| | Value Added | % Growth |
|----------------|-------------------|-------------|
| 1998 | £2,000,125 | |
| 1999 | £1,977,128 | -1.1 |
| 2000 | £2,109,382 | 6.7 |
| 2001 | £1,952,295 | -7.4 |
| 2002 | £1,672,996 | -14.3 |
| 2003 | £1,939,011 | 15.9 |
| 2004 | £1,921,511 | -0.9 |
| 2005 | £2,317,686 | 20.6 |
| 2006 | £2,098,804 | -9.4 |
| 2007 | £3,273,665 | 56.0 |
| Average | £2,126,260 | 7.33 |

| 2007 Value Added Split | |
|----------------------------------|-------------------|
| Accommodation / Food | £695,525 |
| Transport | £1,662,692 |
| Tour Operators & Marine Services | £174,113 |
| Retail/Wholesale/Gift Shops | £600,040 |
| Public Bodies | £141,295 |
| TOTAL: | £3,273,665 |



2.2 Trends & Conclusions

- ◇ Value added has increased by an average of 7% over the past 9 years (the CAGR is 5.63%). However, this is skewed by two major growth years. If you were to exclude the 2007 growth spurt then the average growth rate is a much lower 1.2% year on year from 1998 to 2006. Overall however, this indicates that the tourism sector is a growth area. It also demonstrates that it is a relatively volatile sector. The Global growth rate for tourism is circa. 4% per annum, though this is considerably lower during the current economic climate.
- ◇ With 5 down years and 4 up years in the 9 year analysis period, this indicates that income from tourism can fluctuate materially. However, these numbers are from the Tax Office and not reflective of landing numbers etc (which have almost increased year-on-year). Tax office reports take into account many other factors, so it could be that top line revenue from Tourism has been increasing year on year.



- ◇ The above graph compares the growth in value-added from Tourism and the growth in cruise vessel passengers alongside the growth in land-based tourists. It can be seen that there appears to be only a loose correlation between the VA and Cruise passengers, especially in later years.
- ◇ However, there is a stronger correlation between VA and land-passengers, which is perhaps reflective of their much larger average spend.

2.3 Revenues

The below table shows the total revenues Tourism⁵ is forecast to bring in to each respective sector. These numbers are for 2007 only, a time-series analysis is not possible here due to a lack of data for prior years.

| | Revenue |
|----------------------------------|-------------------|
| Accommodation / Food | £1,384,364 |
| Transport | £3,048,950 |
| Tour Operators & Marine Services | £346,553 |
| Services (Retail etc) | £1,194,311 |
| Public Bodies | £281,232 |
| TOTAL: | £6,255,411 |

3.0 Tourist Arrivals Data – Land/Cruise Based

3.1 Land-based Data

⁵ The 'Public Bodies' number includes solely FITB. Falkland Islands Government also collected £640k directly from passenger levies in 2006/7 and then £949k in 2007/8. A further £300k to £400k was also collected each year through customs services provided to cruise vessels.

The table below shows the numbers and growth trend in the number of people entering the islands via the Airbridge and LanChile.

| | Leisure | Business | Total |
|----------------|-------------|-------------|-------------|
| 2000 | 1291 | 931 | 2222 |
| 2001 | 1099 | 1030 | 2129 |
| 2002 | 1595 | 948 | 2543 |
| 2003 | 1235 | 938 | 2173 |
| 2004 | 1343 | 895 | 2238 |
| 2005 | 1602 | 1128 | 2730 |
| 2006 | 1653 | 1748 | 3401 |
| 2007 | 2338 | 2031 | 4369 |
| 2008 | 1716 | 1530 | 3246 |
| Average | 1541 | 1242 | 2783 |
| CAGR: | 2.2% | 3.7% | 2.9% |

3.2 Cruise-based Data

Cruise Passenger Forecasts to the Falklands to 2012/13

| Season | Pax on Arrival | % Growth |
|---------|----------------|----------|
| 2000/01 | 22,125 | |
| 2001/02 | 27,230 | 23.1 |
| 2002/03 | 27,461 | 0.8 |
| 2003/04 | 34,691 | 26.3 |
| 2004/05 | 37,880 | 9.2 |
| 2005/06 | 45,229 | 19.4 |
| 2006/07 | 51,282 | 13.4 |
| 2007/08 | 62,203 | 21.3 |
| 2008/09 | 62,488 | 0.5 |
| 2009/10 | 63,113 | 1.0 |
| 2010/11 | 40,572 | -35.7 |
| 2011/12 | 42,600 | 5.0 |
| 2012/13 | 44,730 | 5.0 |

Source: Acorn

| Location | Average Passenger Spending |
|-------------------------|----------------------------|
| Cork (Southern Ireland) | £197 |
| Darwin | £146 |
| Auckland | £102-£154 |
| Honolulu | £96 |
| Tahiti | £86 |
| Tasmania | £77 |
| Carribbean | £61 |
| Bar Harbour (Maine) | £53 |
| Portland (maine) | £50 |
| Alaska | £49 |
| Falkland Islands | £46 |
| Brisbane | £41 |
| Zihuatanejo (Mexico) | £37-£47 |
| Charlottetown (Canada) | £39 |
| Prince Edward Island | £31 |
| Margaritaville (US) | £25 |
| Puerto Limon-Moin | £22 |
| Puntarenas | £16 |
| Iceland | £3 |
| Average | £61 |

3.3 Trends & Conclusions

- ◇ Important to note that the numbers above represent total numbers of people flying in and out – not unique individuals – e.g. a single business person that flies back and forth regularly is counted more than once.
- ◇ Acorn forecast 35.7% decline in cruise passengers in 2010/11 season due to filter through of global economic downturn and the proposed heavy fuel ban south of 60 degrees. This forecast is supported by CLIA, who forecast a 33% reduction in passenger numbers visiting Antarctica and this region.
- ◇ The total numbers of people entering the islands by air is relatively stable when excluding 2007 (this was unusually high due to the 25th Anniversary). Based on the accommodation utilisation stats, this appears to be a demand-side issue in that this number does not fluctuate greatly on any annual basis.
- ◇ The average growth rate in passengers using LAN (3.6%) has outdone the MOD (2.1%). The average increase in overall passenger numbers was 2.4%. This indicates a gradual migration from the MOD to LAN as the preferred route.

4.0 Domestic Tourism

The following are some key points from the Acorn/FITB domestic tourism quarterly and air visitor survey reports (2009):

- For domestic tourists the average spend per person per trip was £95.50, with an average spend per day of £57.70.
- For overseas land-based tourists the average spend per person per trip was £568, with an average spend per day of £48. This is almost tripled when looking solely at people visiting for tourism alone.
- Domestic tourism is forecast to be worth £1.1m in revenues per annum.
- The graph to the right shows the accommodation choice for domestic tourists.



5.0 Worldwide Tourism Benchmarks⁶ & International Trends

5.1 Benchmarks

1. Direct economic output per direct worker: World avg (\$24,199) vs FI (\$41,378) vs USA (\$96,920). FI could be lower than the US due to our seasonal nature.
2. Tourism sales revenue per worker: World avg (\$33,392) vs FI (\$59,319/worker) vs USA (\$118,433); FI value added to sales ratio is 70%, vs world's 72% vs USA's 82%, shows FI's value added component is still below those of advanced tourist markets and there is possibly scope for productivity gains.
3. Tourism GVA per capita (population): World avg (\$1,223) vs FI (\$2,323) vs USA (\$4,478); FI has not yet maximized its tourism output per head of population – could this be a function of higher operating costs here (low VA/sales revenue ratio).
4. Output to Investment Ratio (GVA/Investment): World avg (\$1.53 output generated per tourism \$ investment) vs FI (\$3.93) vs USA (\$1.92); FI's capital productivity is very high (60% above UK's), caveat is FI figures is based on a snapshot year, need a historical trend for this to be credible, and our stats are based on a peak year, 2007. This may also be the case for other destinations benchmark numbers also though.
5. Capital Intensity (Investment/Direct Worker): World avg (\$15,788) vs FI (\$20,919) vs USA (\$50,500); FI's tourism capital investment (due to lower levels of tourism infrastructure spending) is lower than in more developed markets, but its capital productivity is higher, i.e., low investment but high returns. This measures how much tourist industries are re-investing to sustain growth and capacity.
6. Tourism multiplier effect: World avg (2.94) vs FI (1.60) vs USA (2.70); the multiplier effect of FI tourism is still low in comparison to UK and other developed tourist markets due mainly to the smaller scale of its economy and dependence on imports.

5.2 Global Trends

- a. Total worldwide tourist arrivals in 2008 were estimated at 924 million (up from 908 million in 2007). The economic downturn, with its associated uncertainties, extreme

⁶ Source: WTTC, 2009

market volatility and the decline in both consumer and business confidence, is expected to take its toll on demand for tourism, at least in the short to medium term. It is envisaged that consumers will holiday in their home markets on 'Staycations' looking for local deals and offers during difficult economic times.

- b. However looking at the long term situation tourism is one of the fastest growing industries globally and the World Travel and Tourism Council (WTTC) predict that travel and tourism worldwide is expected to grow at a rate of 4% per year over the next 10 years. Tourism employed 225 million people worldwide and generated 9.6% of global GDP in 2008. Accommodation is one of the fastest growing aspects of the sector, with that experiencing growth of 4.8% in 2008/9.
- c. The internet has changed the way consumers research and book holidays. They use the internet to research where to go and what to do when they get there, they book their holidays online, they visit community-based websites (e.g. tripadvisor.com) to read first-hand tourist's views and opinions on tourist products/destinations and they use social media websites to share photos and travel advice.
- d. Overseas Focus Group research has shown that people make the decision to make long-haul holidays based mainly on:
 - a. Recommendations/word-of-mouth
 - b. Print media
 - c. TV programmes
- e. Research into a specific long-haul destination such as FI to confirm a decision to visit is also predominantly done on the internet. Print media and specialist travel agent sites are also used to a lesser extent. Bookings are then usually completed online as well. Pre family groups book less structured visits (maybe flights only), whilst post-family groups like more pre-bookings. However, both would already have in mind what they would like to do and see in the Islands.
- f. Consumer trends with regard to accommodation show that whilst accommodation has to be clean and comfortable, for a destination such as the Islands locally-owned accommodation with character was preferred to generic branded hotels.
- g. With recession hitting, many South American countries are trying to maintain growth rates in tourism through a variety of incentive schemes such as:
 - a. Financial incentives and technical assistance to start-ups
 - b. speeding up and prioritising national tourism development plans that are already in place
 - c. 75% tax rebates on new tourism accommodation
 - d. Improvement of travel accommodation services and facilities and the provision of credit facilities for Chileans who want to travel

6.0 Other Key Performance Measures

6.1 Gross Value Added per Worker

| Value Added per Worker | 2007 |
|---------------------------------------|---------|
| Accommodation / Food | £11,992 |
| Transport | £23,093 |
| Tour Operators & Marine Services | £12,437 |
| Services: Retail/Wholesale/Gift Shops | £26,089 |
| Public Bodies | £20,185 |

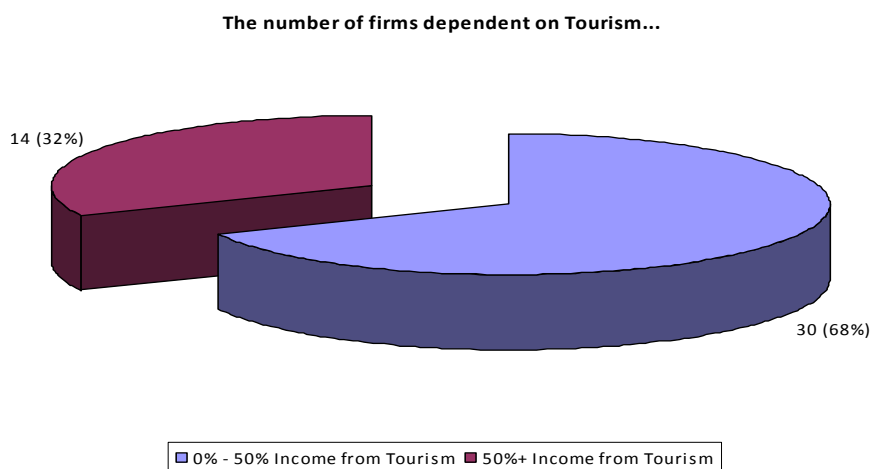
Average: £18,759

6.2 Investment per Worker

| | Investment in the Tourism Industry (2007) | | | |
|----------------------------------|---|-----------------------|-------------------|-----------------------|
| | 2007 | | 2008 | |
| | Total Investment | Investment per Worker | Total Investment | Investment per Worker |
| Accommodation/ Food | £32,350 | £558 | £272,000 | £5,231 |
| Transport | £333,607 | £4,633 | £320,000 | £3,855 |
| Tour Operators & Marine Services | £86,355 | £6,168 | £80,000 | £7,273 |
| Services (Retail etc) | £179,655 | £7,811 | £195,000 | £8,864 |
| Public Bodies | £30,000 | £4,286 | £170,000 | £24,286 |
| TOTAL/AVERAGE: | £661,967 | £4,691 | £1,037,000 | £9,902 |

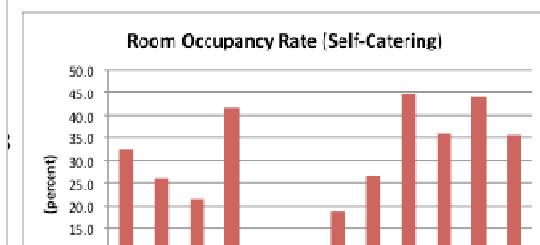
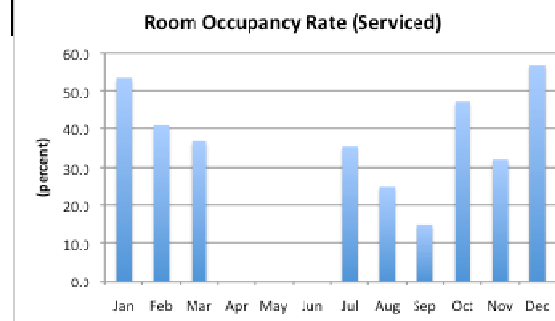
6.3 Dependency on Tourism Sector

The below graph shows from the 44 firms involved in the FI tourism industry, how many of those are 'dependent' on foreign tourism (as defined by >50% income from that area).



7.0 Accommodation Statistics Summary (2008)

| | Serviced Accommodation | Self-Catering Accommodation |
|------------------------------------|------------------------|-----------------------------|
| Average Room Occupancy Rate | 31.40% | 32.50% |
| Average Bed Occupancy Rate | 27.00% | 10.30% |
| Average No. of Guests per Room | 1.5 people | n/a |
| Average No. of Guests per Property | n/a | 2.6 people |
| Average Length of Stay (Residents) | 2.1 nights | 3.4 nights |
| | 2 nights | 2.6 nights |



- ◇ Peak period occupancy rates can still be improved upon. It is clear that capacity is not currently an issue, even during the peak season.

8.0 SWOT Analysis

| | | |
|------------------|---|--|
| STRENGTHS | <p><u>General strengths</u></p> <ul style="list-style-type: none"> • Wildlife breadth & quality • Wildlife accessibility • Wildlife one-offs (large colonies, rare/endemic species) • Adaptability of industry – modify offering to fit demand • Access to key decision makers - lack of hierarchy • Isolation of the country • Rich history • Interesting culture and inhabitants • Beauty of natural environment • Safe environment for tourists (no crime) • Relatively undeveloped and unspoilt • Photographer’s paradise • Ease/speed of regulatory paperwork processing • Location of the Falklands, from a cruise ship perspective • Destination offering (e.g. wildlife) • English speaking and its ‘Britishness’ • Lack of corruption • Easy place to do business • Good level of safety • Lack of red-tape • Island wide industry • Way of life/Friendly community <p><u>International land-based</u></p> <ul style="list-style-type: none"> • High number of repeat visitors • Small tourist numbers – personal experience | WEAKNESSES |
| | | <p><u>General weaknesses</u></p> <ul style="list-style-type: none"> • Inter-industry cohesion/communication • Emerging industry • Minimal Stanley attractions • Limited funds for development/promotion • Labour shortage • Tourism infrastructure • Lasting association with 1982 conflict • Misconceptions (about country, weather, product etc) • Difficult to book from overseas • Information availability and dissemination • Lack of knowledge (key statistics) • Seasonality – strain on operators • Don’t know/understand target markets • No identifiable brand or brand values • Distance and expense from potential markets • Isolation of the country • Lack of industry cohesion • Lack of flights (Need a 2nd flight) • Low number of key players (e.g. cruise vessel) • Lack of awareness of Falkland Islands as a destination • High port and passenger fees (not competitive compared to other close destinations) • Various aspects out of Falklands control (e.g. South Georgia) • Tender port • Poor future planning from FIG • Lack of desire to grow and develop (no hunger to) • Lack of FIG investment in infrastructure (jetty) • Inability to set up charter flights • Resistance to change and development • Lack of access to capital • Cost of insurance • Inadequate communication <p><u>Large cruise ships</u></p> <ul style="list-style-type: none"> • Clash of seasons (fishing/tourism) • Landing facilities <p><u>Yachting (private)</u></p> <ul style="list-style-type: none"> • Knowledge/information for yachting community <p><u>International land-based</u></p> <ul style="list-style-type: none"> • Few transit passengers • Land transport shortage • Accessibility and visibility of international flights • FIGAS – demand outstrips supply in peak season • FIGAS –accessibility to key airstrips (increased regulation) • Price/quality disparity (barrier to selling) • Agent’s commission (barrier to selling) • Difficult to independently walk/hike – lack of trails • Quality accommodation (especially in Stanley) • Small volumes means no potential for economies of scale • Expensive destination (compared to competitors) <p><u>Local/domestic land-based</u></p> <ul style="list-style-type: none"> • Not regarded as a tourist destination by local residents <p><u>MPA</u></p> <ul style="list-style-type: none"> • Day-trippers not readily available • Day-trippers have capacity to dilute premium product |

| | | |
|----------------------|--|----------------|
| OPPORTUNITIES | <p><u>General opportunities</u></p> <ul style="list-style-type: none"> ● International growth in tourism is strong and increasing ● Technology - enabling greater reach in to markets ● Air access – potential for improvement ● Unknown destination –shape perception as new destination ● Off the beaten track ● Tourists growing increasingly adventurous ● Potential to make industry sustainable ● South American region opening up ● English speaking country in a South American environment ● Foreign political situation – potential for improvement ● Lasting association with 1982 conflict ● Potential expansion into adventure holidays, fishing, farm and language tourism, children camps ● Local charter flights ● VFR Market/House swapping ● Yacht market ● Increase supply to cruise vessels (e.g. provisions) ● Become a turnaround port ● More destination opportunities ● Local tourism ● New offshore markets ● Improve marketing and targeting ● Opportunity to use Falklands history (not just 1982, e.g. Darwin) ● Southerly location ● Employment/training/career in tourism ● Waterfront ● Exclusive luxury accommodation ● Ferry ● Seasonal promotions to extend season ● Focus on ecotourism ● Possible ‘snowbirds’, who would visit during the summer as a lifestyle choice ● “Sister City” abroad, such as with Whitby – helps promote exchanges and visitors <p><u>Large cruise ships</u></p> <ul style="list-style-type: none"> ● Cruise ship growth is strong (new vessel builds occurring) ● Economic benefit from bunkering <p><u>Expedition cruise ships & yachts</u></p> <ul style="list-style-type: none"> ● Extend pre-post cruise visitation ● Increase length of stay <p><u>International land-based</u></p> <ul style="list-style-type: none"> ● Increase in number of FITs ● Excellent destination for yachts (including winter layup) ● Multi-centre holidays (with South America) ● New markets (adventure/fishing) capacity to extend season <p><u>MPA</u></p> <ul style="list-style-type: none"> ● Large captive audience at MPA | THREATS |
| | <p><u>General threats</u></p> <ul style="list-style-type: none"> ● Increased visitation raises potential for environmental accidents/damage ● Potential impact on natural environment from key economic activities (fishing, harvesting hydrocarbons etc) ● Weather – unpredictable and limiting ● General threat of terrorism to tourism industries ● Air access ● International politics ● Strength of competition (marketing, investment, funding) ● Exchange rate ● Overall cost of destination is high ● External factor outside of Falklands control (e.g. exchange rates) ● Increase of low-value cruise passenger ● Increased number of tourists who view the vessel as the destination ● Commission issue over marketing the Falklands, over reliance on external companies promoting the Falklands ● Pricing ourselves out of the market (e.g. passenger fees) ● Capacity issues ● Current economic climate ● Lack of total industry representation ● Argentina (e.g. flights) ● IMO regulation with regard to heavy fuel oil usage south of 60 degrees south. <p><u>Large cruise ships</u></p> <ul style="list-style-type: none"> ● New vessel builds and existing big vessels not ice reinforced ● Capacity for environmental impacts are increasing ● Dependence on popularity of Antarctic tourism ● Big players in cruise industry control the market ● Misinformation about the Falklands onboard ships ● Little control over sales process/pricing of tours from ships ● Cruise traffic displacement | |

9.0 Gap Analysis

The following table details the key areas of potential improvement for the Falkland Islands Tourism sector. It is split into 5 key sub-sectors with one additional sector for overarching issues impacting the entire industry; this classification shall also continue into the Part B strategy development.

| | | |
|---------------------------|--|---|
| ACCOMMODATION/FOOD | <p><u>Major Areas of Concern</u></p> <ul style="list-style-type: none"> ◇ Tourism offerings have been fairly static in recent years possible due to a lack of competition. Sometimes it is perceived that price increases are not in line with an increased quality offering or change. ◇ Lack of local rating system and quality rating for accommodation. ◇ No local training or career guidance available for the services industry generally. ◇ Private ownership of prime sites and land for tourism purposes is a possible issue as the tourism industry continues to expand. <p><u>Potential Improvements</u></p> <ol style="list-style-type: none"> 1. FITB to distribute best practice leaflets and to highlight improvements so as to speed up the progress being made in the quality of accommodation. 2. A local rating system to be established that facilitates tour operators to select accommodation for their customers accordingly, and also helps drive improvement across the entire accommodation industry in the islands. 3. A partnership could be established with an overseas institution to provide both theory and practical advice to the local industry. 4. Maybe not at the stage yet where action is required, however if in the future it becomes an issue, then legislation for right of way etc to prime wildlife sites may be required. | <p><u>Major Areas of Concern</u></p> <ul style="list-style-type: none"> ◇ Lack of investment in infrastructure in and around the Public Jetty area where cruise passengers disembark. ◇ Require a more easy-to-use booking system with the local accommodation providers. ◇ Lack of a commission system for accommodation means that prices are not transparent at the customer-facing end. ◇ Currently the target market is only predominantly from the UK and is interested mainly in one specific area – wildlife. This means that our customer base is relatively narrow. A more diversified base is needed and would mean that numbers may not fluctuate as much, even during economic downturns. ◇ Currently only two major operators that market internationally and take bookings for local operators. <p><u>Potential Improvements</u></p> <ol style="list-style-type: none"> 1. FITB to detail required investment in public areas such as the jetty centre, and a financing agreement could then be worked out between the private sector and FIG/FIDC. Once agreed, work could be sub-contracted to the private sector or performed by PWD. 2. Establish an online portal for bookings through a number of the major lodges and agree an independently established commission system for tour operators when confirming rooms. 3. Some of the major lodges to agree to a trial season for commission-based sales to see if demand improves. 4. This is a marketing issue, and a full-scale review is required on the existing marketing done internationally across the industry to ensure that funds are being used as effectively and widely as possible. New markets should be identified and the right avenues/publications for marketing utilised. 5. Individuals that offer tours etc to be encouraged by FITB to become more involved in the direct marketing process. |
| | TOUR OPERATORS | |

| | | |
|------------------|--|--|
| TRANSPORT | <p><u>Major Areas of Concern</u></p> <ul style="list-style-type: none"> ◇ Some FIG depts. do not set prices or schedules a year in advance, so this makes advance bookings for tour operators difficult (their bookings will usually be taken at least 12 months in advance). The FIGAS pricing issue has now been addressed. ◇ There has been little innovation in the day-trip market to take advantage of possible higher price activities that are more tailored to the customer e.g. fishing trips / adventure days etc. ◇ There are issues with the current road network to some major tourism sites. <p><u>Potential Improvements</u></p> <ol style="list-style-type: none"> 1. FIG to develop a budgeting process for those departments where pricing is commercially important, so that it allows some degree of certainty for the tour operators. Schedules where possible shall also be published as early as possible. Retroactive pricing could also be put in place if needed and deemed reasonable for some block bookings (e.g. such as for FIGAS). 2. A market survey to be completed to forecast potential demand in this area and a pilot project to be established through FITB and the local tour operators and other relevant parties. 3. Extra investment in this area is required and the PWD committee on this issue should take note of the needs of the industry when assigning investment to particular areas. | PUBLIC BODIES |
| | | <p><u>Major Areas of Concern</u></p> <ul style="list-style-type: none"> ◇ FIG managed entities such as Falkland Landholdings & the Philatelic Bureau should and could be making more from Tourism-related businesses as they own some prime sites and sources of income. ◇ Linked to the above is the lack of a ring-fenced tourism ‘development fund’ such as there is for Agriculture, Fisheries and other major sectors of the economy. ◇ The existing flight booking system for airbridge flights is not as user-friendly as it possibly could be. ◇ Lack of a Tourism ‘focal-point’ within FIG means that at times tourism-related issues are not considered at all in decision making processes. It can also mean that a holistic view of how decisions can impact upon tourism is not taken. ◇ FIDC possibly could be more proactive in offering ‘business consultancy’ advice to operators in the tourism industry. ◇ Education has minimal focus on the tourism sector. ◇ Tourism-related taxes are increasing, but there is little basis for this happening. <p><u>Potential Improvements</u></p> <ol style="list-style-type: none"> 1. FIG to adopt a more commercial focus and implement a tourism-strategy in its FLH and Philatelic arms. 2. FIG to either establish a pool of funds (maybe drawn from tourism-related income such as landing fees) that can be earmarked for public infrastructure as well accessed on at least a beneficial commercial basis by local tourism-focused firms that are looking to set-up or expand. Could be managed by Ag Dept./FIDC or FITB directly. Tourism development area/zones designated for future marketing and investment spending. 3. FIGO in conjunction with the industry to review the feasibility of a simple on-line booking system. 4. Appointment of a senior civil servant with the remit of managing tourism-related issues within the islands from FIG’s perspective (e.g. investments, support, education etc). 5. FIDC to be encouraged to assign more focus and resources to this area. 6. Taxes and charges/levies should be cost-based and evidence should be provided as to why they need to increase. |

| | | |
|-----------------------|--|--|
| OTHER SERVICES | <p><u>Major Areas of Concern</u></p> <ul style="list-style-type: none"> ◇ There is general belief that the area around the public jetty has not been fully developed for retail purposes. ◇ Some new concepts are required for holidays to attract higher value tourists to the islands and differentiate the islands offering compared to competing destinations in the world. ◇ General lack of presence on the web from the major operators and lodges in the Islands. No online booking facilities. ◇ There is a potential gap in the market for hosting events such as small conferences (e.g. for photography or astronomy). ◇ Lack of investment in existing private infrastructure and additional employment. <p><u>Potential Improvements</u></p> <ol style="list-style-type: none"> 1. Land owners in that region (both public and private) to meet to discuss the long-term development of the area in conjunction with FITB and the planning and environmental office. 2. Some new concepts/pilot projects that are to be spearheaded by FITB are: fishing lodges and higher value day trips (e.g. own vehicle rental/hampers etc). 3. Agreement for a single online booking portal for all lodges and operators. Joint cost sharing of this? 4. Marketing to be done by FITB on this element of the tourism industry in the islands. 5. Additional investment to be encouraged through business incentives such as tax breaks or matching amounts from FIG. | OVERARCHING ISSUES |
| | | <p><u>Major Areas of Concern</u></p> <ul style="list-style-type: none"> ◇ Tourism is very seasonal in the Falkland Islands (Oct-Mar accounts for 90%+ of the value-added). ◇ Lack of consultation on the yearly movement in landing fees and other port charges levied on the cruise liners. ◇ A 'risk-averse' and non-innovative culture that has led to potential gaps in the market being overlooked. For example, some adventure sports could be offered in the islands but are not. This could be because people do not do these activities themselves. ◇ The cost of insurance is a concern, especially for some of the smaller operators. ◇ The seasonal nature of the industry potentially prevents investment levels from increasing and is also a barrier to entry for some employers/employees. <p><u>Potential Improvements</u></p> <ol style="list-style-type: none"> 1. One way to increase value added from the industry is to extend the season by a month both ways (Sep-Apr). This shall need the support of the tour operators and lodges, to ensure bookings are taken and lodges still open during that period. 2. FITB to attempt to unite the industry to a greater extent through their membership AGM. 3. A consultative forum to be established that shall meet once a year during the budget process so that FITB and the industry can provide input for the budget setting process. 4. A multi-company 'business forum' could be established to try and investigate other potential areas of value added that could benefit the entire industry. This should be part of the National Tourism Strategy working group. 5. Review whether there are cheaper avenues open for insurance at an industry level? Could be underwritten by FIG/FITB? 6. Difficult issue to address, but extending the season is one work item already raised, and this could also be paired with lighter immigration rules for trained seasonal workers wishing to come into the islands for the tourism industry. FIG could also offer financial support and off-season incentives to employers in the industry. |

10.0 Summary of GAP and SWOT Analysis

As identified in the sections 8.0 and 9.0 there are several key challenges that tourism in the Falkland Islands will need to consider and act on if the industry is to continue to grow and provide a high-quality visitor experience and offering.

10.1 Local

Infrastructure

Large increases in the number of tourists visiting the Falklands (particularly day-visitors) have created a need for increased infrastructure - both to meet rising visitor expectations and ensure a positive lasting impression of the Islands. Investment will be required to improve domestic transport, entry and exit points, communications, signage, waste disposal, energy production, and accommodation (quantity and quality). Advances in many of these areas will also positively benefit the existing local population.

Available labour

The Falklands currently has an available workforce of 1,500 individuals and low unemployment levels. Large seasonal demand spikes for casual labour (November to March) and strong annual growth in visitor numbers has already resulted in a shortfall of people qualified and available to serve tourists during peak times. A solution which incorporates the needs of industry will help ensure the Falklands are able to match increases in demand for short-term labour, and provide the standard of service expected by international travellers in a competitive global market.

Inter-industry cohesion/communication

The local tourism industry has grown successfully with minimal planning or intervention. By increasing inter-industry cooperation and communication, local operators will have a greater understanding of the local market, competitor offerings, and how the Falkland Islands product fits into the global tourism market - enabling them to tailor their products and marketing efforts to deliver the best result and present a unified, polished product.

Country-wide commitment to the future of the tourism industry

The success and growth of the Falkland Islands tourism industry is dependent on both an increase in financial investment into tourism, and also a commitment to developing a true understanding of the total benefits of tourism, within the industry, the Government, and the wider community.

10.2 International

Air access

Land-based and passenger exchange growth are significantly influenced by air capacity into the Falkland Islands. Air capacity needs to increase in-line with consumer demand to enable future growth of the industry. To reduce the reliance on one or two key markets, it is equally important to develop new routes into the Islands.

This challenge cannot be viewed in isolation, as it will create further access and capacity challenges - such as distributing visitors around the Islands as well as accommodating them at key locations.

Exchange rate

There are two challenges which can be associated with exchange rate fluctuations; it is believed that a consumer's decision to travel in the first instance can be dictated by

exchange rates, and also fluctuations affect how much a visitor will spend whilst in the Falkland Islands. Some markets are more sensitive to fluctuations than others, with UK travellers being fairly hardy and US visitors fairly sensitive. A strong pound will also motivate the local market to travel offshore rather than holiday within the Islands, and hence reduce domestic travel.

With the \$US being the largest exchanged currency on the Islands, and used by the majority of cruise ship passengers as well as a key currency for Latin America, the current global weakening of the \$US will lead to major challenges going forward.

Consumer awareness and perceptions

To ensure growth within the tourism industry it is important that potential visitors have a true and accurate understanding of the Falkland Islands as a tourist destination. Awareness of the tourism offering on the Islands is currently low, which in turn stifles growth opportunities. The challenge is to increase awareness and build a strong consumer understanding and interest, standing out against all the commercial messages consumers will continue to receive in future years.

10.3 Strength-Weakness-Opportunities-Threats Analysis

The analysis highlights that the majority of the tourism industry in the Falklands is still at a relatively early development stage in its life cycle. A key theme which emerges from a lot of different facets of the analysis is the current lack of research and statistics which are available within the industry, in turn creating areas of uncertainty. The analysis also highlights that the size of the Falklands economy can be both a weakness and strength to the industry, for example the amount of capital available for investment into tourism is limited however the lack of hierarchy within Government can enable key decisions on tourism related matters to occur quickly.

The Falklands are a small destination on the maps of cruise companies and travel agents and therefore the control they have over the direction of the tourism industry in the Falklands is quite strong. However, the Falkland Islands offer a unique tourism destination, and with solid statistics and information which assists investment into the industry and helps develop cohesion within the industry, tourism within the Falklands will develop and answer the ever changing consumer demands and needs, from niche markets.



FALKLAND ISLANDS

ECONOMIC DEVELOPMENT STRATEGY

STRATEGIC DIRECTION

29 October 2010



FOREWORD

The Honourable Dick Sawle, MLA

The Economic Development Strategy (EDS) is a process begun under the previous Assembly in 2008.

The Falkland Islands economy has boomed since 1982 and the Falklands has benefitted enormously from the success of the fishing industry. Fishing now accounts for 60% of our Gross Domestic Product. There has also been a very successful and large growth in tourism and the various service sectors that surround it.

However, ***the economy of the Falklands whilst successful, cannot rely on such a narrow economic base for the future.*** It is widely recognised that the private sector must grow and we must deepen and strengthen current industries such as fishing, tourism and agriculture as well as develop new industries and diversify the service sector.

The EDS sets a target for economic growth of 4% to 6% per annum. With ever higher public expectations and the increasing costs associated with meeting the demands of a modern democratic society, the Falkland Islands has to grow its population and its economy in order to sustain itself. This EDS document, produced in collaboration and in consultation with all sectors of our community will act as a ***blueprint for our economic future.***

Mr. Roger Spink, President, Falkland Islands Chamber of Commerce

This Economic Development Strategy (EDS) sets out a vision with respect to the Falklands economy, and how it can be realised.

The EDS is a long term high level strategic plan of action for all those stakeholders in the Falkland economy who are concerned with its success.

It assists policy makers to set the conditions to facilitate the profitable expansion of the Islands economy

It provides the blueprint for all of the Policy Unit's work and is intended to provide a focus for all of the delivery partners. The success of this strategy will be dependant upon the ability of all the parties to take this work forwards to the benefit of all in our community.

Many of the issues have been highlighted in Economic studies of the past, the hours of work required to produce this document by members of all sectors of our society make it essential that these recommendations are acted on in the future if economic growth is to be achieved.

I would like to express my thanks to Sonny José, Michael Poole and all in the Policy Unit for the difficult job of pulling the many and diverse views together into this document.

CHAPTER 1

GENERAL THEMES

INTRODUCTION: GENERAL THEMES

EDS VISION AND MISSION

Recognising that the development planning process must begin with the articulation of a shared national vision, the Falkland Islands Economic Development Strategy is the result of an inclusive and cooperative approach.

It is designed to ensure a strategy that is realistic and based on a thorough and rigorous analysis of the islands' economic performance and industry consultation. The EDS sought to arrive at such a vision through the process of close consultation, both public and private, in order to ascertain that the expectations and aspirations of the stakeholders are considered.

The internal assessment included a review of several successful economic models where economies have been nurtured by prudent fiscal policies, developing a diversified resource base alongside a knowledge-based economy, active investment promotion, and expansion into a larger export base. Advice and opinion have been sought from economic development counterparts in other countries.

The ultimate aim of the Falkland EDS is the identification of key priority areas for economic development and a realistic set of macroeconomic targets in harmony with social goals laid out in the Islands Plan. This will be achieved by broadening the sectors of economic activity, enlarging the enterprise base, and growing external markets. Furthermore, the Falkland EDS aims to continuously enhance competitiveness and improve productivity as a means to raise the islanders' standard of living and attain sustainable economic growth.

The Vision

- Developing a sustainable economic future for the Falkland Islands
- Ensuring a balanced social and economic development approach through an integrated development strategy that brings benefits to all (economic equity)

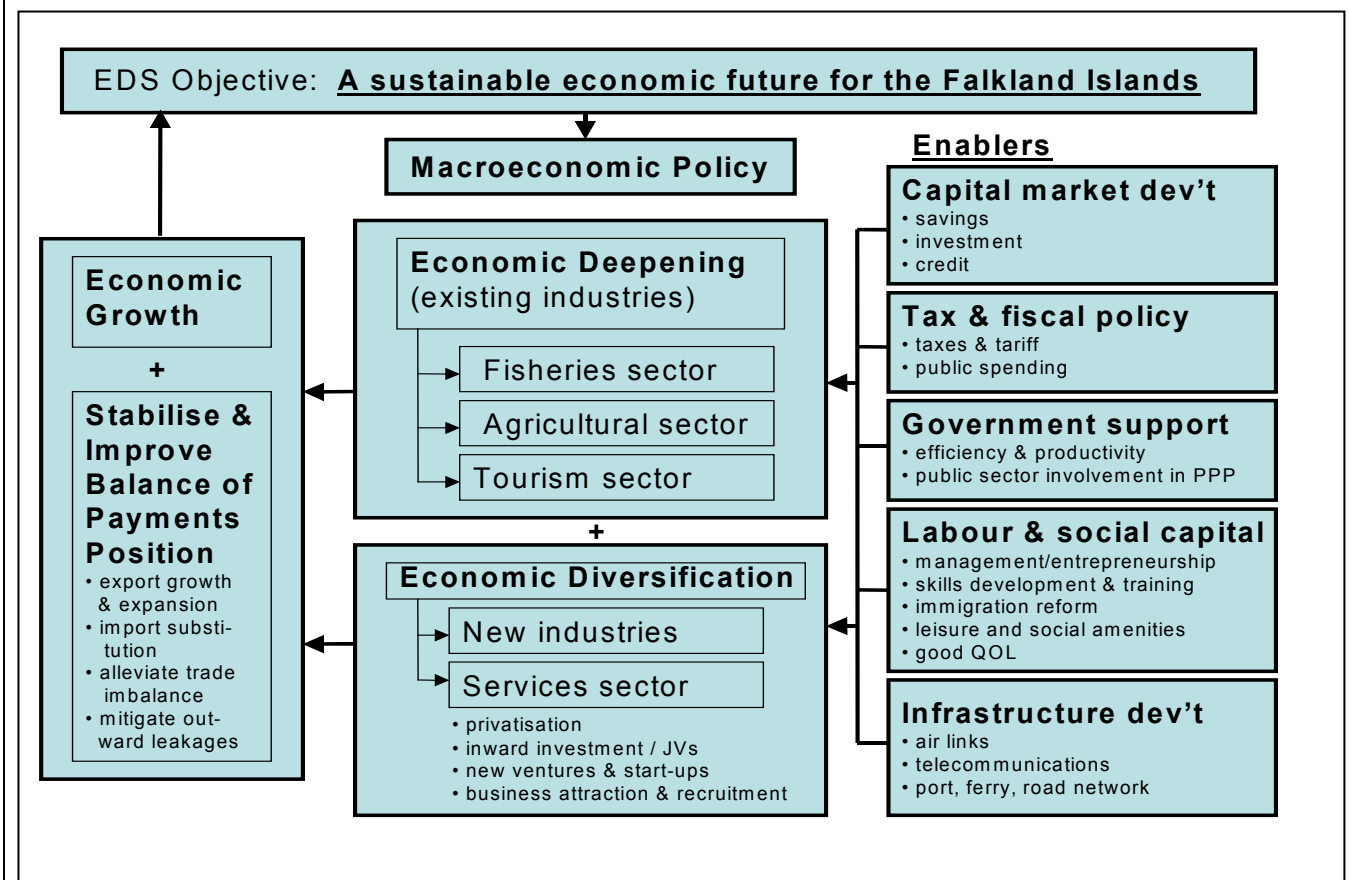
Economic Policy Priorities (2010-2025)

The economic landscape of the Falkland Islands has transformed substantially over the past 25 years, and the last decade has been marked by modest economic growth. Several strategic shortcomings exist, however. The economy is narrowly concentrated on three sectors (i.e., fisheries, agriculture and tourism) which are highly volatile and vulnerable to external shocks. In addition, internally, geographic isolation, a small and aging population, a looming labour gap and skills shortage, limit the islands' ability to continue to build upon its strong legacy of the past and to develop a sustainable and vibrant economy for the future.

The Economic Development Strategy will need to address these issues and to expand the islands' growth potential and to reduce volatility in the economy by: (a) enhancing the productive capacity of its existing industries (broadening and deepening); (b) by economic diversification and (c) by creating and strengthening the necessary environment (policy actions, regulations, infrastructure, and other key resources) to be able to maintain and raise the Falkland population's living standards and to secure a strong economic foundation for the next generation, one which opens new opportunities for long-term wealth creation.

| | |
|---|---|
| <p>Objective A: Achieve a target real economic growth of 4-6% pa</p> | <ul style="list-style-type: none"> • The Falkland economy has almost reached the limits of indigenous economic growth. And to sustain present living standards over the next 25 years, it must grow at a relatively faster pace. This objective is integrated into the general macroeconomic framework of the Economic Development Strategy. • Historically, a growth rate of 4.1% over the last decade was achieved on the back of improved labour and capital productivity, while demographic factors have contributed to a small drop in the employment rate and a much faster decline in the number of new labour force entrants. Limits to economic growth are manifested by a tight labour market (not enough local workers) and rising labour costs. |
| <p>Objective B: Stabilise and improve the balance of payments (external accounts) position</p> | <ul style="list-style-type: none"> • While labour, capital and productivity are addressed by the first objective, another source of growth is export-focused economic activities, primarily through the accumulation of healthy external trade balances (surpluses) from the export of goods and services, as well as the influx of earnings and capital (investments) from abroad. The Economic Development Strategy hopes to capitalize on the long-haul wealth building potential of an outward-looking economy. This in effect promotes further economic diversification and offers new employment opportunities for the local population. |

Strategic Goals



To achieve the visions of a sustainable economic future for the Islands, the Economic Development Strategy will need to address pro-actively those factors that are holding back the long-term sustainability of the islands' economy. The above EDS macroeconomic framework highlights what are considered to be the most important strategic response to these challenges. These are:

- Economic deepening and broadening within the existing industries (i.e., fisheries, agriculture, tourism, and services) in order to maintain their growth momentum and value adding to traditional resource-based activities.
- Economic diversification focused on building the islands' industrial base and productive capacity with new non-traditional and emerging industries, including knowledge-based enterprises.
- Enhancing the external payments position through export expansion, import substitution and diversion, and capital surplus accumulation; healthy surpluses provide a buffer in times of economic contraction and provides resources to avoid socio-economic dislocation.
- Creating the necessary policy framework and resource infrastructures to enable and deliver a workable Economic Development Strategy.

Main Obstacles and Constraints

There exist obstacles to sustainable development; these are detailed over the following pages. The main challenges facing the Falkland economy consist of locational issues such as the islands' geographic isolation and remoteness, as well as the need for additional policy responses to address business environment, technical, financial, political, legal, business environment and labour constraints.

Business Environment Issues

- Fostering sustainable growth will have to be a public and private sector endeavor, with more joined-up working being needed.
- FIG's traditional and leading role in the past, though well meaning, could be strengthened to deliver maximum and positive effects on private sector growth. In the past, short-term policies towards land purchases, managing and subsidising economic activities (e.g., abattoir, road works, utilities, inter-island air and coastal ferry services, etc.), unclear market signals as regards real estate development and tax policy, provided limited stimulus for the private entrepreneurs and companies to seek a bigger role in economic development. The EDS must produce a business friendly environment where FIG's focus will be directed to more private sector participation in the provision of economic services to the population, on clear yet flexible long-term policies, on establishing simpler and consistent rules, and on a transparent regulatory framework to improve certainty among business investors.
- There is limited existing capacity of practical and professional guidance for business start-ups and an absence of a one-stop/pro-active business advisory service for local entrepreneurs and foreign investors.
- In terms of business attraction, while the FI offers a relatively open economy, more support for local businesses in conjunction with an enhanced foreign investment climate, tax regime and legal framework will facilitate the attraction of more development-friendly capital. This is to be achieved without the loss of the economic levers from domestic hands.
- Generally, there is poor recognition of the Falkland brand internationally.
- The overriding policy objective therefore aims at:-
 - Stronger FIG leadership in forging a pro-growth and pro-expansion economic policy based on a modern business environment and legislation, stronger public-private collaboration, transparent judicial system, streamlined government processes, and an effective investment facilitation process
 - New business development including inward investment projects will normally require a degree of local participation in specified economic sectors. This may involve employment, local company registration or joint venture vehicles with varying thresholds. Transfer into the local community of knowledge and skills shall also be actively encouraged. Requirements will be set out in an Inward Investment Policy document.
 - Fostering a positive image of the FI as a favourable place to do business (internationally) and installing an effective and efficient business incentive regime augmented by supportive advice and infrastructure resources

| | |
|--|---|
| <p><u>Legal and Regulatory Issues</u></p> | <ul style="list-style-type: none"> • Limited regulation of vital monopolies often leads to overpricing and insufficient delivery of services. Strengthening the legal and regulatory regime will protect consumer interest and improve user’s productivity. • The retention of highly skilled and educated workers on temporary work permits remains low. The labour force remains static in terms of size, upskilling and new opportunities. The short-term work permit policy needs to induce effective knowledge and skills transfer. The current immigration and work permit policy also needs to encourage transition to permanent residency among the “transient” working population, reduce their high outbound turnover rate and the high cost of worker recruitment. • The selective land distribution policies and property licensing/ownership rules, coupled with the immigration and residency requirements (also political in scope) inhibit the repatriation of former Falkland residents and limits potential access to entrepreneurial capital and manpower skills. Often, repatriation is viewed as a social cost and liability rather than for its regenerative benefits. • The above analysis points to a need for an open, efficient, effective and globally integrated legal and regulatory environment based on:- <ul style="list-style-type: none"> ○ More efficient delivery of services through a market-oriented regulation of government monopolies and private-owned single suppliers ○ A legal framework that supports open and inclusive (but targeted and selective) immigration and work permit policies ○ Foreign land and farm ownership policy that enhances local ownership rights, but flexibly accommodates open access and entry to the farm and home property markets for returning Falklanders, as well as foreign business interests |
| <p><u>Technical and Infrastructure Issues</u></p> | <ul style="list-style-type: none"> • An overarching obstacle to making the Falklands a more viable place to do business is the high cost of satellite-based telecommunications and its limited capacity. • Inadequate international air links, likewise, inhibit further business growth in the traditional sectors (especially Tourism), as well as the long-term viability of any emerging industries strategy. If the Falkland economy is to diversify successfully into non-resource dependent sectors and into a higher value-added knowledge-based economy, the frequency and availability of international air links must be increased from its current level. • An aging and limited port infrastructure likewise constrains potential for further and faster economic expansion. Of critical importance is the absence of a modern deepwater port that provides a rational basis for on-shoring of more commercial fishing activity, including containerization and transshipment of the Falkland fish catch, marine services, and related higher value-added and supply chain spin-offs. • Limited coastal ferry and domestic flight services and the local road network impede commercial growth and movement of population in and to Camp. These also hinder the integration of the rural areas with the Stanley economy. Road, coastal ferry and local flights are critical in revitalizing the rural economy, but more importantly in providing a firm basis for de-centralising the Stanley economy towards addressing the problem of Camp isolation, and in improving social cohesion. • This analysis suggests the 3 primary objectives to meet the technical and infrastructure constraints are:- <ul style="list-style-type: none"> ○ Telecoms – more reliable and cheaper services ○ International air links – additional frequency ○ Port infrastructure and related local transport facilities |

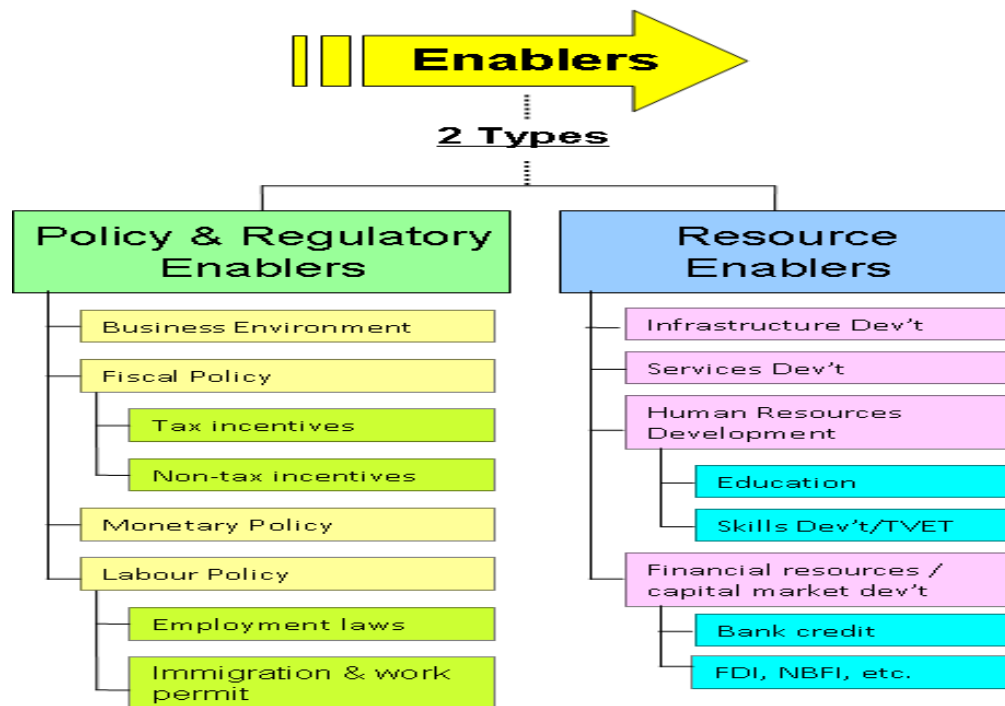
**Financial
Capital and
Fiscal Issues**

- The most prominent financial constraint is the high cost of doing business in the Falklands due to its remoteness, but more importantly, its small market and customer base. This impacts the economy both in terms of the high unit cost of labour (suffering from labour shortage), and the landed cost of imports, reflective of the diseconomies of scale (which is manifested by high telecoms, air transport and ocean freight charges).
- Despite a high level of public sector reserves, access to capital plagues a number of industries, especially the fishing industry which collectively needs to address the issue of an aging fleet and the substantial cost of vessel replacement, as well as agriculture which is stymied by the lack of an acceptable farm and real estate property valuation system.
- Because of a small domestic capital pool, there is a limited and relatively undeveloped capital market. There is generally a dearth of available capital raising options (other than traditional bank credit) and a shortage of investment alternatives for private and corporate savers in which to park their cash and liquid assets. Many resident individuals and companies maintain offshore bank accounts and keep assets abroad in search of better returns and capital preservation for lack of business opportunities at home. For that matter, real estate is emerging to be the only lucrative investment option among private households and businessmen, which likewise invites asset price inflation.
- Adding to the high cost of doing business in the Falklands is the “unaffordable” insurance premiums paid by local enterprises on account of the Falklands’ small market and geographic remoteness. The lack of a “suitable” risk rating is further compounded by political risk.
- Lastly, FIG expenditures represented 43% of GDP in 2007, comparably high by international standards. This ratio is expected to rise again when the 2008 and 2009 GDP statistics are released. Government’s dominant role in the economy (in terms of generously providing both economic and social services to the small population) is further exacerbated by the recent economic contraction (2008-2009) and the need for deficit spending. Not only is the economy being pump-primed by drawing down the external reserves, the economy may not be able to expand at a sustainable rate to meet FIG’s growing social spending requirements for an aging population and rising cost of delivering social goods and services. Higher taxes and user fees, therefore, may become imperative in order to fund the population’s demand for social services. This fiscal constraint will have negative short- and long-term effects on the economy’s ability to finance further growth through private savings and investments, both necessary to increase overall output and productivity. In short, FIG must ensure a stable and predictable fiscal (tax and spending) environment as it could potentially crowd out the private sector if it lacks coherence and competes against the latter for domestic savings and capital which are vital in enlarging the economic pie.
- Therefore, the capital and fiscal constraints could be addressed by policy objectives which include:-
 - Improved access to capital – both domestic and foreign investments
 - Prudent fiscal management – balanced budget, fiscal surplus (if possible) and healthy government reserves, tax policy supportive of economic growth, investments and that leads to a diversified revenue base
 - Broadening local investment opportunities

| | |
|--|---|
| <p><u>Labour Supply and Human Resource Issues</u></p> | <ul style="list-style-type: none"> • In the last decade, FI economic expansion and income growth were achieved primarily through rising worker output productivity (higher output with few workers) and capital productivity. The local labour force and employment participation remained stagnant, contributing to a tight labour supply situation, pushing up labour costs. A disturbing long-term trend facing the Falklands is the looming demographic gap due to an aging workforce, low natural reproduction rate, therefore a higher population dependency ratio (proportion of workers to dependents). In 2006, there were 2.4 working age persons per 1 dependent (below-15 and over-65 year olds). By 2034 and without replacement, this ratio is projected to decline to 1.4 workers per dependent member of society. Normally, the minimum dependency ratio is 3-4 workers per dependent, and 6 workers per retiree. • The availability of skilled manpower to match industry’s projected and actual demand is limited and to date not adequately addressed. The labour shortage is compounded by short duration work permits granted on ad hoc demand instead of one based on “total needs assessment” which matches short-term demand with long-term business plans, and skills development and training program for locals augmented by labour demand forecasts. • The basic foundation for a knowledge-based economy (KBE) does exist, although only 14.5% of population ages 20 and above hold tertiary degrees with the ratio of advanced degree holders’ even relatively lower. This could potentially limit local participation in a KBE. A lower than OECD average broadband penetration rate, a limited range of commercial opportunities, inadequate worker skills and business application in ICT tend to constrain the economy from moving up the next level to a competitive knowledge-based economy (the cornerstone of a higher value added and diversified economy). • Labour shortage is critical in Camp. The rural development strategy hinges on Camp repopulation by attracting young productive workers and entrepreneurs. Already the average age of a farm owner/operator is 50-51 years. • Lastly, the current immigration policy and work permit/residency rules fail to ease the tight labour market, resulting in limited supply and high labour costs that limit business expansion in the islands. Societal and cultural norms lie in the core of immigration debate (i.e., a broad consensus needs to be reached on which type and how many). • The objective therefore is to:- <ul style="list-style-type: none"> ▪ Encourage natural population growth ▪ Broader and inclusive, but targeted and selective immigration policy that expands the current labour pool – selective, targeted, long-term and permanent ▪ Better education, skills training and employment opportunities |
| <p><u>Political & Other Issues</u></p> | <ul style="list-style-type: none"> • The attitude of Argentina poses challenges for the Falkland Islands. Any economic development strategy will have to take into account the political, diplomatic and commercial ramifications of Argentine actions and foreign policy. • The inherent risk is that political issues will contribute to financial risk, and affects future inward investment and access to foreign capital. • To a certain extent, while the Falkland economy has been an open and business friendly one, the preservation of a small village atmosphere and business environment for socio-cultural and historical reasons will be tested by the economic challenges that the next phase of development will likely precipitate. The EDS will invite wider debate regarding a balanced policy on inward investment, foreign land ownership and broader immigration reform while squaring this off with aspirations to promote local entrepreneurship and the growth of domestic enterprise. This policy direction could lead to increased entry of foreign partners and capital, as well as foreign talents, both essential to spur economic growth. |

Enablers / Key Policy Actions

The above summary of cross-sectoral issues indicates the FI faces manageable problems. The main challenges in the next 15-25 years include: (1) ensuring the economic pie continues to expand; (2) sustaining the present living standards and QOL; (3) attaining fiscal balance and/or surplus; and (4) fostering long-term economic competitiveness. A critical decision lies in determining the future role of FIG in the economy, and whether it is to be transformed into an effective business enabler, regulator and facilitator of private enterprise. The key policy drivers will be an open market economy, diversification, and broader (selective) immigration. This section outlines various cross-sectoral interventions. To understand which actions will be employed, two types of enablers are presented:



KEY FOR ENABLERS: S-T = 1-3 years

M-T = 4-7 years

L-T = 8-10+ years

Policy and Regulatory Enablers – which are primarily the “software” required or policy framework on which to build the groundwork for actual strategic intervention. These are:

- Business environment
- Legal and regulatory environment
- Fiscal, monetary, trade and industrial policy
- Labour policy

Resource Enablers – which are the “hardware” component or the actual intervention points or policy actions/steps to be instituted in order to deliver an action plan. These are:

- Infrastructure development
- Services development
- Human resource development
- Financial and capital resources

POLICY AND REGULATORY ENABLERS

Business Environment Enablers

The Falkland economy will need to set itself up for higher standards in order to achieve the changes needed for economic diversification and competitiveness. The new economy will be enhanced by adopting an open, transparent and outward-focused business friendly environment that is supportive of economic growth and expansion. The business environment will need to incorporate an effective and efficient delivery of government resources, as well as strengthen public-private partnership. Business start-up conditions should be optimized and geared towards encouraging new enterprise growth through a complementary and integrated business facilitation facility within the public sector.

Short-Term Actions (1-3 years)

1. Forge and develop cooperative working relationship and partnership between the government and the private and non-profit sectors
 - a. Form a joint public-private economic advisory body (FI national economic council) to support and assist FIG with the formulation of future economic policy, or
 - b. Form joint action committee or group (economic development advisory forum)
 - c. Appoint a Legislative Assembly portfolio holder for Commerce and Industry
 - d. Introduce FIG guiding principle which espouses a positive approach to developing businesses by providing a well-developed infrastructure with world-class support services using the private sector to deliver:-
 - Banking & trade finance
 - Efficient transport logistics
 - Sophisticated telecoms
2. Establish a Board of Investments (one-stop investment promotion agency) to provide business enabling and facilitating role
 - a. Open policy towards inward investments
 - b. Pro-active international business promotion
 - c. SEZ certification, site location and JV business partnering/networking

Medium-Term Actions (4-7 years)

1. Board of Investments (investment promotion agency) to continue to facilitate business formation and retention
 - a. Harmonise and integrate business incentives, legislation, business support programmes and schemes; fiscal incentives to stimulate development and not merely to attract foreign direct investments
 - b. Favourable and development-friendly tax policy

| | |
|--|---|
| <p><u>Legal & Regulatory Environment Enablers</u></p> | <p>Linked to a competitive business environment (that attracts both local and foreign investments), a modern legislative and judicial framework will be adopted utilizing a market-friendly approach balanced with an efficient regulatory regime that delivers services with higher levels of consumer and business satisfaction. The regulatory regime can be utilised to improve the competitive environment. This entails a faster response and delivery in the creation and amendment of legislation to improve business efficiency, optimize business opportunities and instill confidence in the legal and regulatory regime. Hence, current legislation regarding tax, land ownership and property rights will be reviewed and revised to encourage new investors and to create a business climate in line with the Falkland’s aspirations and in tune with emerging trends in the broader economy.</p> <p>Short-Term Actions (1-3 years)</p> <ol style="list-style-type: none"> 1. Better regulatory framework for single suppliers (and monopolies) <ol style="list-style-type: none"> a. Review the continued justification of monopolies and single suppliers to ensure adequate provision of both fuel and telecoms for planned future economic development b. Provide clearly defined overseas farm land and real estate property ownership rules; flexible policy towards leasing and use of crown land (for both local and foreign interests) 2. Review existing and enact the following legislation to support new economic policy and transparent regulatory process: <ol style="list-style-type: none"> a. Investment Incentives Act (also Foreign Investment Act) b. Annual Investment Priorities List c. Export Promotion Act d. Special Economic Zones Act e. Build-Operate-Transfer (BOT) and PPP Act for major project financing f. Privatisation Act g. Financial Services Regulations Act; create a financial services regulatory agency (FSRA) h. UCITS-type Collective Investments Scheme legislation (Investment Funds Act) 3. Establish and clearly define FIDC’s role and mandate in economic development <ol style="list-style-type: none"> a. Development finance operating along commercial lines; non-compete role with private sector finance b. Business advisory and facilitation role for local entrepreneurs; support to entrepreneurship development via business mentorship, cooperative education and internship programmes c. Provide farm credit financing (mortgage and working capital) for agri-business, agro-tourism, aquaculture, mariculture, SMEs (RDS/Community-based initiatives), etc. <p>Medium-Term Actions (4-7 years)</p> <ol style="list-style-type: none"> 1. Provide farm credit financing (mortgage and working capital) for agri-business, agro-tourism, aquaculture, mariculture, SMEs (RDS/Community-based initiatives), etc. 2. Launch an on-line business registration portal at the Registrar of Companies |
|--|---|

| | |
|--|---|
| <p><u>Trade Policy Enablers</u></p> | <p>The FI economy will not only benefit from introducing adequate financial, legal and institutional infrastructures, but more immensely from a policy focused on external trade and industry expansion. The latter gains prominence in the economic strategy that promotes growth and expansion. First, foreign direct investments can be targeted and selected to promote certain industries, help encourage economic diversification and transition from traditional businesses such as commodity exports to new and more lucrative activities. Second, an export-led trade and investment policy can help improve capital allocation and business performance, strengthening institutions and attracting useful foreign technical expertise. Third, as the new economy ramps up export and capital surpluses, foreign reserves can be accumulated as precautionary savings against financial turmoil and buffer during economic hardships. Likewise, a trade and industrial policy provides a basis for developing the capital markets and the liquid capital needed to finance future productive activities.</p> <p>Short-Term Actions (1-3 years)</p> <ol style="list-style-type: none"> 1. Introduce an annual Investment Priorities Plan (with tax and non-tax incentives) 2. Introduce a related national export development strategy that defines and prioritizes pioneer and non-traditional industries 3. Broaden local procurement preference with FIG and MPA to support local suppliers (including changes to FIG financial instructions to encourage local tenders and bidders to provide goods and services within a certain price differential/band) 4. Promote and develop Camp-based cottage industries and farm production for export/import substitution (i.e., contract farming) with targeted incentives (RDS) 5. Integrate trade promotion and advice into FIGO's functions through a joint public-private initiative (FIDC/CoC); implement a programme for information dissemination to attract foreign business interest <p>Medium-Term Actions (4-7 years)</p> <ol style="list-style-type: none"> 1. Establish a Special Economic Zone (SEZ) in Stanley and REEZ in Fox Bay and/or Fitzroy to attract foreign and domestic investments and partnerships (RDS), preferably in KBE/ICT/R&D activities and agri-business; Tourism Enterprise Zones (TEZs); port-related enterprises <ol style="list-style-type: none"> a. Promote competitive service exports through offshore contracting b. Look into feasibility of setting up Commodity Price Stabilisation Funds for wool, meat, fisheries, fuel price, tourism enterprises to ameliorate the negative effects of wide price swings and market volatility 2. Promote and implement Privatisation Programme encouraging local partnerships, potentially covering:- <ol style="list-style-type: none"> a. Power generation and other public utilities b. FIMCo, FLH, FIGAS, Quarry c. Education and health service provision (including outsourcing of school and hospital management) d. Shared services (public sector/private sector) such as HR recruitment, fisheries R&D, economic and financial consultancy, ICT, etc. 3. Revisit and negotiate bilateral fisheries agreement with other countries (Argentina, South Georgia, etc.) 4. Establish "export-oriented" business consortium or trade bodies to encourage team building and effective branding and advocacy in penetrating new foreign markets (e.g., similar to Chilean wine, Aussie meat, for Falkland organics, niche tourism, etc.) |
|--|---|

| | |
|--|---|
| | <p>Long-Term Actions (8-10+ years)</p> <ol style="list-style-type: none"> 1. Introduce ISO9000 or QVM to make export service sector more competitive and productive |
| <p><u>Fiscal & Monetary Issues Enablers</u></p> | <p>Disciplined fiscal policy and prudent fiscal management are essential to ensure a sustainable fiscal environment and help respond to economic cycles. A non-deficit (with occasional surpluses) budget policy contributes to a strong fiscal position and economic long-term stability. Government efficiency and joined up public sector financial planning also contribute in improving the business environment. Alongside a straightforward and transparent tax structure - a Falkland selling factor (in attracting more investments) -- for many investors, low taxation policies are a major incentive in deciding where to locate a business. Maintaining a stable and development-friendly tax regime is a useful enabler and a competitive edge in attracting new businesses. A benign tax policy should raise opportunities for FI businesses to identify and work closely with international partners, and compete more effectively on the global scale. And by achieving monetary stability (with manageable/low inflation and full employment), the competitiveness of the FI as a business location of choice can be bolstered.</p> <p>Short-Term Actions (1-3 years)</p> <ol style="list-style-type: none"> 1. Balanced budget policy that ensures strong budget controls <ol style="list-style-type: none"> a. Fiscal austerity (expenditure rationalization and reduction in spending growth) b. Review of personnel (HR) services c. Devolution of budgeting and finance roles to department heads 2. Competitive tax regime based on a stable, consistent and coherent tax policy (not ad hoc) in sync with economic priority goals and objectives 3. Diversify domestic tax revenue sources <ul style="list-style-type: none"> - Indirect taxation (GST, MSL, NIS, etc.) - Selective tariffs on certain imports (excise taxes on “sin” products) - Cost recovery/user pays fees 4. Achieve tax collection efficiency (compliance) through tax enforcement <ul style="list-style-type: none"> - Third-party information sources - Plug tax loopholes (personal and corporate taxes) - Industry benchmarking and electronic tax filing - Bolster tax audit section within the Tax Office 5. Ensure stable prices and low inflation <ol style="list-style-type: none"> a. Restrain asset price inflation through strict bank credit lending guidelines 6. Introduce a capital market development plan to mobilise local savings through tax deferral <p>Medium-Term Actions (4-7 years)</p> <ol style="list-style-type: none"> 1. MTFP and medium-term public investment programme 2. Separation of retirement and pension benefits payments from regular government budget 3. Better fiscal management and improvement of state-owned enterprises’ performance: <ul style="list-style-type: none"> - Aim for break-even point (cost recovery) or operating surplus - Limit FIG guarantees and subsidies (only for capital expenditures) for state enterprises - Adopt capital rationing and budgeting mechanism with investment decisions based on financial viability tests - Cap and reduce government expenditure to GDP ratio 4. Introduce tax and fiscal incentives (tax holiday, low tax rates, tax allowances and training grants, generous depreciation allowances, infrastructure tax credits, etc.) <ul style="list-style-type: none"> - Fishing vessel replacement - New priority industries 5. Create, design and negotiate double tax treaty agreements (tax treaty network) to attract foreign direct investment inflows and foster a tax-friendly business environment |

| | |
|---|---|
| | <p>Long-Term Actions (8-10+ years)</p> <ol style="list-style-type: none"> 1. Provide adequate funding for long-term public investment programme 2. Restore level of government reserves to 2.5 times operating expenditures. |
| <p><u>Labour Supply and Human Resource Issues Enablers</u></p> | <p>The key to unlocking the potential of the Falklands is its people. Experts worldwide emphasize the importance of workforce availability and development (social and intellectual capital) to economic growth. Two factors affect economic expansion or contraction, namely, workforce participation and employability. Secondly, the labour policy must also drive significant improvement in the quality and efficiency of the labour market. The labour policy will aim to adequately supply highly educated and skilled manpower resources to meet the future requirements of its principal (existing) industries, as well as an increasingly diversified and outward-looking knowledge-based and service-oriented economy. To achieve this, the labour policy will, therefore, have to be open and flexible towards the import of foreign talents and workers, while encouraging greater cross-over (flexibility) and mobility of labour.</p> <p>Short-Term Actions (1-3 years)</p> <ol style="list-style-type: none"> 1. Streamline, fast-track and flexible work permit programme driven by market needs (linked to points system) 2. Extend automatic residence or permanent right to remain to aliens currently in FI and returning former Falkland residents 3. Immigration reform and legislative changes, covering: <ol style="list-style-type: none"> a. Establishment of a clear, progressive and integrated path towards permanent residence and FI status (points system) with shorter qualifying period b. High value permanent residency scheme c. Business investor scheme/nominee programme d. Professional immigrant status e. Returning FI resident scheme f. Link high value, business investor and nominee category, and returning FI resident visas to investing into the Economic Development Fund <p>Medium-Term Actions (4-7 years)</p> <ol style="list-style-type: none"> 1. Extend automatic residence or permanent right to remain to aliens currently in FI and returning former Falkland residents 2. Generate employment opportunities for returning graduates and also: <ol style="list-style-type: none"> a. Job bank for returning graduates b. Job placement, career planning and recruitment assistance <p>Long-Term Actions (8-10+ years)</p> <ol style="list-style-type: none"> 1. Encourage and incentivize students to return home (current return rate of 50-55%) <ol style="list-style-type: none"> a. Grant personal tax exemption for 5 years (i.e., “welcome home” incentive) b. Mortgage interest deduction or tax credit for first-time home buyers c. Tax reduction for companies that pay sign-up bonuses to FI returning students d. Transportation and vehicle tax credit for FI returning graduates (i.e., “welcome home” incentive) |

| | |
|---|---|
| | <u>RESOURCE ENABLERS</u> |
| <u>Infrastructure Development Enablers</u> | <p>Current infrastructure capacity will need to cope with the levels of economic and consequent demographic base envisaged in the next two decades. Hence, an open and outward-focused economy needs sufficient and resilient infrastructure and associated services to match. The Falklands will have to ensure and secure economic growth by building on its current energy, transport, telecommunications, technology and other physical assets with maximum public-private sector collaboration. Infrastructure development will aim for energy security, efficient transport, adequate and modern ICT, and a modern port facility.</p> <p>Short-Term Actions (1-3 years)</p> <ol style="list-style-type: none"> 1. Integrated Transport Strategy – multi-modal land, air and sea transport links 2. Additional international air links; Stanley airport improvement (for international traffic) 3. Improved telecommunications capacity and facilities 4. Volume use discounts and peak load differential pricing to reduce the cost of electricity to productive sectors <p>Medium-Term Actions (4-7 years)</p> <ol style="list-style-type: none"> 1. Port infrastructure, governance and amenities: <ol style="list-style-type: none"> a. Create port authority b. Find foreign BOT/PFI partners c. Build a fit for purpose, future proof port facility 2. Establishment of SEZ(s) and REEZ (in Fox Bay), either public- or private-funded <p>Long-Term Actions (8-10+ years)</p> <ol style="list-style-type: none"> 1. Renewable energy development to bring down cost of imported fuels with cost effective:- <ol style="list-style-type: none"> a. Wind energy, solar energy, biomass/biofuels, fuel blends/ethanol b. Hybrid vehicles; electric cars (fuel efficiency) c. Conservation (drive less) d. Smart appliances e. Government energy conservation programme f. Energy audit of commercial and industrial establishments 2. Develop and improve access roads in Camp (based on financial viability and economic impact analysis) 3. Further improved telecommunications capacity and facilities (incl. self-provision and alternative service providers) |

| | |
|--|--|
| <p><u>Services Development Enablers</u></p> | <p>In order to improve and enhance the Falkland QOL and offer adequate work/life balance, the EDS must ensure the adequate provision and supply of public goods and services in an environmentally sustainable manner while maximising workforce participation and their productive potential, and ensuring the Falkland business operating environment is supported by world-class connectivity and a robust service delivery infrastructure. Effective zoning and master planning would play a role to ensure that industrial and economic expansion takes place without adversely impacting the environment. Services development hinges on efficient use of land, provision of housing and amenities, improved connectivity, effective image management and gaining international recognition in the global commercial stage.</p> <p>Short-Term Actions (1-3 years)</p> <ol style="list-style-type: none"> 1. Conduct a housing needs survey with long-term demand and supply projections and market-based solutions 2. Expand housing facilities and services for first-time home buyers and imported labour 3. Better domestic inter-island and ocean freight services (frequency/schedule, additional capacity, trade routes, etc.) 4. Improved and effective land use and zoning procedures for EDS projects 5. Promote a vigorous presence in the international commerce arena through active CoC partnership with foreign CoC counterparts – twinning, mentorship and business networking <ol style="list-style-type: none"> a. Establish more vigorous twin city agreements to promote tourism, cultural and business ties b. Working in partnership with the Board of Investments/FIDC to link new industry clusters with financing sources and marketing networks abroad <p>Medium-Term Actions (4-7 years)</p> <ol style="list-style-type: none"> 1. Adopt land use and spatial planning in effectively designating areas for future development and mitigating environmental stress and negative impact <p>Long-Term Actions (8-10+ years)</p> <ol style="list-style-type: none"> 1. Promote work/life balance and good QOL, through:- <ol style="list-style-type: none"> a. Flexible working arrangements; flexi-wage b. Hiring of part-time workers; subcontracting c. Improved health care delivery for workers d. Investigate the possibility of raising the retirement age to improve work force participation |
|--|--|

| | |
|---|--|
| | |
| <p><u>Human Resources Enablers</u></p> | <p>While the labour policy aims to raise labour availability, workforce participation and employability, human resource development policy will be focused on raising opportunities, efficiency and productivity of the workforce in the years ahead. This entails the training and upskilling of the workforce to meet industry’s needs. While residents will need to possess the skills required to match the needs of a growing economy, workers, employers and government will be encouraged to invest in education and further training. However, education and training must be treated as an investment (with future benefits and payback) rather than as sunk cost. And investment in social and intellectual capital will have to be geared towards both enhancement and retention of talents.</p> <p>Short-Term Actions (1-3 years)</p> <ol style="list-style-type: none"> 1. Commission a Present and Future Manpower Skills and Research Needs Study <ol style="list-style-type: none"> a. Manpower demand and supply survey with future projections b. Tracking system for local talents (benchmarking and placement) and career development programme 2. Redefine education curriculum to focus on national economic and social goals of employability <ol style="list-style-type: none"> a. TVET for agriculture (RDS), fisheries, and tourism b. Guidance for and encouragement of both tertiary as much as secondary education 3. Private sector-driven technical skills training centre to supply qualified workers for traditional and new industries 4. Institute a service contract for FIG-funded HE/FE students and graduates to return to FI (within for example 5 years from completion of studies) and contribute to the Falkland economy and society; this will mitigate brain drain, and recover the investment spent on their overseas education 5. Redefine education curriculum to enhance national economic and social goals of employability with a revised school curricula geared to:- <ol style="list-style-type: none"> a. Increased focus on maths and sciences b. Foreign language proficiency 6. A revised school curricula should also lead to:- <ol style="list-style-type: none"> a. Promote ICT and computer studies; training courses and certification programmes; promote eLearning programme b. Promote business (accountancy and entrepreneurship) training and internships c. Promote graduate and post-grad training abroad; coupled with tax incentives or allowances d. Raise national educational attainment (to tertiary level) <p>Medium-Term Actions (4-7 years)</p> <ol style="list-style-type: none"> 1. Foster agreement with other OCT institutions for pooling of resources in research and training 2. Establish a National Scholarship Fund (with FIG seed money and counterpart funding from private sector contributions with tax deductibility) to fund and widen the scope for post-graduate education and specialist graduate training 3. Develop Student Internship Scheme to enhance and support a National Technical and Vocational Education & Training (TVET) Programme 4. Introduce co-op education (work/study) scheme and overseas agricultural exchange programme. |

| | |
|--|--|
| | <p>Long-Term Actions (8-10+ years)</p> <ol style="list-style-type: none"> 1. Establish an actual (or virtual) private sector-led Institute for Management Training to train local entrepreneurs and businessmen in alliance with foreign learning institutions 2. Introduce a National Productivity Enhancement Programme and Business Innovation Awards |
| <p><u>Financial & Capital Resource Enablers</u></p> | <p>As the FI economy grows and becomes more sophisticated, the financial markets and the capital base will need to broaden and diversify in order to harness and finance the economic projects. This section lays down the building block for the future Capital Market Development Plan. The key element of FI's future financial market strategy is to ensure that a larger part of its capital surplus is mobilized for projects within the FI, to strengthen the local economy, or invested prudently in areas beyond its borders as part of a broader diversification strategy. With economic expansion, there will be an increasing demand for more sophisticated financial services, from commercial to investment banking, insurance and larger scale corporate and project finance. The capital markets will have to be open to both foreign and local partners, bringing further capital, expertise and competition in a more diverse financial landscape. Along with this, a robust regulatory framework and adequate legal infrastructure will have to be put in place.</p> <p>Short-Term Actions (1-3 years)</p> <ol style="list-style-type: none"> 1. Formulate and implement a <u>Capital Market Development Plan</u> to mobilize domestic savings and introduce new investment vehicles <ol style="list-style-type: none"> a. Launch a savings and credit enhancement scheme (by FIG, FIDC, SCB) to attract foreign-held deposits back to FI (e.g., one-time tax credit) b. Obtain S&P/Fitch/Moody's sovereign bond rating for FIG to ease access to international bond markets 2. Tap returning former Falkland residents as potential sources of new foreign capital (capital requirement for residency status) 3. Introduce an Economic Development Fund (capital pool) funded from mandatory investments within the high value immigrant and business investor schemes 4. Widen the scope of the FIG-run Insurance Fund or introduce insurance risk pooling among private sector businesses (i.e., set up an insurance pool via a private sector-managed captive insurance or "self-insurance" companies that provide cheaper liability and contingency insurance coverage to local private sector firms) to help reduce the high cost of property and casualty insurance in the Falklands (or a segregated private insurance fund). <p>Medium-Term Actions (4-7 years)</p> <ol style="list-style-type: none"> 1. Raise domestic savings and investment ratios to 25% of GDP (from 17% currently) 2. Create alternative investment vehicles such as unit trusts (mutual funds) to attract and channel private capital to productive sectors and integrate this with SIPP below (as in Chile's AFP, Canada's RRSP, US IRAs, etc.) <ol style="list-style-type: none"> a. Set up a balanced mutual fund investing in foreign equities & bonds and in the domestic market (private equity/fixed income placements, local company shares, money market) <ul style="list-style-type: none"> ○ Introduce money market instruments, Commercial Paper/PNs ○ Finance companies and money market placements (non-bank deposits) ○ Insurance savings products (principal-protected investment funds) ○ Venture capital funding ○ Business guarantees ○ Joint corporate ventures ○ Invoice discounting, factoring, financial leasing, and other non-bank financing |

| | |
|--|--|
| | <p style="text-align: center;">vehicles</p> <ol style="list-style-type: none"> 3. Legislate and introduce tax-exempt/tax-deferred retirement savings plans, and registered educational savings plans with matching government grant funding for graduate and professional degree studies 4. Introduce and encourage local content portfolio allocation by existing pension funds to supply domestic capital (e.g., venture capital) for local investments 5. Introduce a broader tax-deferred defined contribution plans or SIPP (self-invested personal pension) schemes or self-directed retirement savings plan (tax deferred) 6. Introduce a National Insurance Scheme (NIS) to create a domestic savings pool (similar to Singapore’s Central Provident Fund) 7. Introduce tax-deferred registered health savings plans to help defray/meet non-FIG covered MTO expenses 8. Create a FI home mortgage company or unit within FIDC; incentivize bank lending to SMEs via FIG guaranty and/or tax credits (credit enhancement) to assist first-time home buyers to enter the property ladder 9. Build FIDC’s capability to provide adequate sector financing (with FIG backing) <ol style="list-style-type: none"> a. Launch a local savings bank or cooperative bank (credit union) b. Venture into internet banking/eBanking and offer ATM service c. Tap external funding sources – EIB/EIF & CIF; Private equity funds, British Venture Capital Association, European Venture Capital Association, British Business Angels Network, etc.; private equity investors; etc. d. Negotiate FIG-guaranteed (Apex-type) loan from international financial institutions for on-lending to domestic businesses e. Build in-house investment management capability and local expertise to co-manage FIG reserves (like Singapore’s GIC, Temasek Holdings, CITIC and ADIA) 10. Launch a SMSE/entrepreneurship development program (packaged funding linked to Industrial Development Bond asset pool) integrated with credit/loans, eCommerce, internet banking, marketing assistance, skills training, internship and a suite of business advisory and assistance services <p>Long-Term Actions (8-10+ years)</p> <ol style="list-style-type: none"> 1. Require foreign investment advisers to train local FI talents as T&C of investment advisory contract 2. Participate in developing private domestic capital markets in tandem with private capital sources <ol style="list-style-type: none"> a. Incubate, seed and co-sponsor a local mutual fund b. Provide venture capital funding for local business projects c. Co-sponsor/underwrite and introduce a primary bond market <ol style="list-style-type: none"> o Corporate bonds o FIG-backed Industrial Development Bonds o FIG-backed Savings Bonds 3. Foster agreement with other OCT institutions in pooling resources for investment management, ICT, actuarial services, and for coordinating the pension provisions and social services offered to the citizenry (a niche market for FI) |
| <p><u>Other Key Steps & Actions</u></p> | <p>An improved regional political climate is a key enabler of economic development. This section outlines possible multilateral avenues (to explore) in order to achieve improved interaction and relationship with its regional neighbours and to find and develop areas of joint and common interests (via confidence and trust building measures).</p> <p>Short-Term Actions (1-3 years)</p> <ol style="list-style-type: none"> 1. Promote trade missions and bilateral meetings with Chilean, Uruguayan and Brazilian businessmen and trade bodies |

- | | |
|--|--|
| | <ol style="list-style-type: none">2. Encourage commercial ties through private sector business exchanges and trade missions with regional private sector trade bodies (CoC level, partnership with research institutions)3. Work through sub-national/regional institutions, business and non-profit groups |
|--|--|

Medium-Term Actions (4-7 years)

1. Develop a cooperative and closer workable relationship with relevant regional institutions; closer commercial ties are intended to reduce and diffuse political deadlock

CHAPTER 2

INDUSTRY-SPECIFIC ANALYSIS

Industry Objectives

1. Develop, invest in and maintain a sustainable world class fishery.
2. Maintain the awareness and build on the positive perception of the Falkland Islands fishery as a well managed and sustainable resource.
3. As a minimum maintain the contribution made by the seafood industry relative to the total GDP of the Falklands. (excluding the effect of an economic transformation due to the discovery of oil for example).
4. Change the perception of the seafood industry in the Falkland Islands to one which recognizes the economic and social importance of the industry.

Strategy Summary

The objectives are to be achieved through:

- a) Ensuring that adequate resources are invested in the research and management of the fishery. Priority in the allocation of these resources to be given to developing understanding and enhancing the management of commercially valuable stocks.
- b) The adoption by Government of policies and approaches which support the development of adequate air, sea container and communications links.
- c) The provision of infrastructure to facilitate the growth of exports, flexibility and diversification of markets and provision of maritime services in the Falklands.
- d) The phased renewal of the Falklands fishing fleet and the improvement of catching and processing efficiency within the industry which results in the Falklands seafood sector growing its share of the international market for seafood.
- e) Promoting opportunities in the seafood industry within the Falklands.

Growth Opportunities Summary

1. The establishment of a Regional Fisheries Management agreement for the South West Atlantic. This initiative requires the formation of a working group in the Falkland Islands of Industry and Government to lead the process of promoting a framework of discussion with HMG, other Governments and Industry and other stakeholders as appropriate. The Falklands Government to ensure that the Falklands have a presence at all related discussions and negotiations, preferably representing the Falklands in our own right, and that the agenda is led by the Falkland Islands Fishing Industry.
2. The Falkland Islands Government to explore the feasibility of a policy of promoting Falkland Islands fishing interests in the South Georgia Fishery, the principal aim being that Falkland Islands companies to receive priority in the allocation of fishing rights by the Government of South Georgia and South Sandwich Islands.
3. Improvement of the business environment for Seafood companies generally. Taking more opportunities and adopting a positive policy of making the operating environment more user friendly for the industry in the Falklands.
 - i. By the improvement of telecommunications services and implementing a coherent and properly resourced regulatory regime for this sector.
 - ii. By the implementation of a properly resourced regulatory regime for the fuel supply service and taking account of industry requirements in future fuel supply arrangements.
 - iii. By making the maritime standards regarding officer qualifications on Falkland Island vessels more appropriate to the circumstances of the Falklands and establishing a more immediately responsive and flexible system reacting to operating circumstances here.
 - iv. By pursuing an immigration policy which is flexible and responsive to industry needs.

- v. By the introduction of port related land use policies which take account of the long term nature of Industry requirements.
- vi. By making every effort in the longer term to reduce ITQ fees over time to a level which is more in line with cost recovery of fisheries management costs. It is recognised that scope to achieve this will be dependent upon the extent to which government can align its expenditure with its revenue sources in a sustainable manner. However, fee levels must have regard to the long term sustainability of the industry with particular regard to fleet replacement.
- vii. By continuing a policy of promoting the management, sustainability and Industry benefits of the Falkland Islands property rights based system of ITQs.

4. Port and Shore-Based Infrastructure development:

Future proofing the port facility to ensure that it has the capacity to meet present and projected needs of the Industry; including provision for vessel lay up, expansion of on-shore services and facilities and the urgent creation of a Port Authority to manage these elements.

5. Fleet Replacement:

The current locally registered fishing fleet of 16 – 20 vessels is aging and will be due for replacement. The industry will require access to finance for this and for working capital; this may be an opportunity for the local financial sector. Fleet replacement will necessarily be phased over time and will be dependent upon the economics of the fishery going forward. A tax regime providing adequate tax concessions directed at sector fleet renewal to be considered.

Short-Term Actions (1-3 years)*

- a. Establish a working group drawn from all local stakeholders to provide the impetus to work towards a Regional Fisheries Management Organisation (RFMO) for the South West Atlantic (SWA). Participants to include MLAs, FIG Fisheries Dept, FIG Policy Unit, FIFCA and Falklands Conservation. International stakeholders to be invited to join the process.
 - i. The Falklands team to agree a strategy and the approach necessary to publicize the existence of the initiative, developing the involvement and commitment of HMG to the process and encouraging where appropriate the participation of other stakeholders.
 - ii. Falkland Islands Government to lobby the GSGSSI strongly and commence discussions for the allocation of all fishing rights to Falkland Islands fishing companies and to strengthen the position of Falkland seafood interests throughout CCAMLR by facilitating their presence at CCAMLR meetings as part of the UK delegation as a minimum.
- b. The upgrading of the existing Telecommunications Ordinance and implementation of an appropriately robust regulatory regime, adequately resourced which achieves an improved and less expensive service. In particular FIG to ensure that adequate consideration is given to Industry requirements sufficiently far in advance of any renegotiation dates.
- c. FIG to deliver an industry friendly, clear and transparent fiscal and taxation policy which is based on clear principles and guaranteed for a number of years which is administratively uncomplicated and is not resource intensive for Industry compliance.
- d. The implementation of an adequately resourced, transparent and robust regulatory oversight of the existing fuel supply arrangements.
- e. Port Development to be agreed, financed and commenced. Progressing the port development project and the establishment of an Independent Port Authority to manage the existing port structure along with

the potential development of any new port and infrastructure, participating with the relevant FIG departments in future port and maritime decisions.

- f. Develop a joint approach between FIG, the service sector and the fishing industry to realize potential benefits of containerization in the Falklands.

Medium-Term Actions (4-7 years)*

- g. South West Atlantic Regional Fisheries Management Organisation working group to be constituted, financed and begin.
- h. FIG to deliver a demand driven immigration policy which while having regard for the need for normal safeguards has sufficient flexibility to permit for example the ‘fast tracking’ of applications from industry for short term casual workers for which a particular case can be made.

Long-Term Actions (8-10+ years)*

- i. FIG and FIDC to work with both local and South American partners to improve air access to the Islands and with HMG/MoD to ensure air-bridge flights are as regular, competitively priced and commercially-focused as possible.
- j. Review the options of opening up the Telecoms and Fuel supply markets to competition either before or at the end of the existing agreements.
- k. FIDC to work with lending institutions (i.e. SCB, EIB, commercial banks) to have in place finance for industry development.

Investment & Financial Support Requirements

The table below summarises the possible financial requirements to meet the targets and opportunities identified above. Where possible the costs have been split between private and public (and partnership funding requirements).

| | | Potential Investment Requirements | | |
|--------------------------------------|---|-----------------------------------|-----------------|-------------|
| Description | | Public | Private | Partnership |
| Medium-Term | Lobbying work and travel for establishment of a RFMA. | £50k | £10k | |
| | Secretariat for RFMA | £400k | £100k | |
| Long-Term | Port & Infrastructure Development | £20m | £10m | £5m |
| | First-stage fleet replacement over next decade+ | | £160m | |
| Total Financial Requirements: | | £20.45m | £170.11m | £5m |

Industry Objectives

1. Increase the percentage of GDP contributed by the Services Industry, which shall stem from Services Industry growth in excess of both the existing and any new industries serviced.
2. Develop the export potential and expand the export delivery of the Industry.
3. Consistently improve the quality and range of Services on offer.
4. Work within and between industries to help smooth the labour demand throughout the year.
5. Where practical and economic, develop a process of import substitution (of both goods and services).

Strategy Summary

The above objectives shall be achieved through a widening and deepening of the range of Services available in the islands, which shall be facilitated by accessible financial capital and the potential opening up of current single-supplier and public utility markets where practical and viable (if not viable, regulation shall be put in place that protects businesses and the public interest). Telecommunications and transportation services shall be developed alongside improved commercial port and shipping services so that any opportunities for FI Services companies to bid for work in the South Atlantic and elsewhere can be exploited to their full potential. All of this shall be made possible by the availability of labour year-round that have obtained the necessary skills through targeted training and shall result in a Services sector that is ready to meet new demands such as port development and hydrocarbons.

Growth Opportunities Summary

Seven major areas of opportunity have been highlighted in the Services Sector. These are:

- I. Development of the Telecoms services and offering in the islands. Whilst there are inherent constraints to telecoms in the Islands due to a lack of critical mass and satellite dependency; there is room for expansion and improvement. This shall be obtained through a more hands-on approach to regulation and service provision in the short-term and a possible loosening of the monopoly regulation to allow targeted competition in certain segments in the longer-term.
- II. Real-estate development including housing, visitor centre and office/business park sites. This growth opportunity shall help grow the services sector but also facilitate growth and expansion of other sectors of the islands' economy. It shall need to be a shared task and joint initiative between the public and private sectors, with FIG facilitating development through legislative and planning decisions.
- III. Development and expansion of MoD outsourcing of service provision to FI companies. There is room for growth in the number and breadth of FI companies operating in and for the MoD at MPA. Maximising local involvement in the services offered on the base shall mean more revenue flowing into the services sector and open up a new market.
- IV. Marine Development. This opportunity is based on maximising the services industry offering and value obtained from both the existing port infrastructure, along with any future developments in this area. The main focus shall be on containerisation, marine and shipping services for both the fisheries and domestic sectors.
- V. Privatisation of selected FIG services. This opportunity is seen as two-tiered. Firstly, regulation and management of current key single suppliers and/or FIG services shall need to be more robustly regulated or managed. Once this has been achieved over 12-18 months then privatisation of further segments of FIG can be considered. Specifically this may include Utilities.
- VI. Alternative energy development. There are 8 options that are potentially feasible for the islands, these range from energy-saving measures such as Heat Pumps to entirely new energy sources such as Biofuels or Solar energy. They shall require further work and feasibility studies.
- VII. Alternative financial services development. There are 9 areas of possible development which are focused on either (i) the provision of finance to businesses, (ii) the management and utilization of existing wealth in the islands, or (iii) obtaining increased overseas funding for both the public and private sectors.

Short-Term Actions (1-3 years)*

- a. Consider adopting the recommendations in the Doyle Report with regard to telecoms pricing regulation.
- b. Allocate sites in and around Stanley for real-estate development and fast-track planning permission for both residential and corporate buildings. Partnership to be established with developers, Bank and FIG to develop sites and put in place accessible finance for both local and overseas purchasers (meaning a change in land purchase rules to facilitate this).
- c. Revisit joint FIG/private sector approach in bidding for MoD contracts; establish a public-private partnership forum (FIG, CoC, RBA) for sharing of knowledge and expertise. Local firms to develop overseas partners when possible to facilitate winning contracts – FIG to support through a workable tax and company registration system for MoD work.
- d. Formation of a privatisation task-force with the remit to both advise the Regulatory Body on existing management and regulation of single suppliers and public services; as well as prioritise and detail the process for future privatisation of relevant FIG services where deemed in the public interest. Establish a transparent tender process for eventual transfers that are open to both local and overseas bidders.
- e. Review the berthing and harbour fees to encourage increased local containerisation of fish catch. Maintain competitive and simple charging structure in the longer-term.

Medium-Term Actions (4-7 years)*

- f. Develop a semi-independent regulatory body that sets regulation for single supplier markets as economically as possible.
- g. Develop a strategy for reviewing the existing telecoms license and fuel supply when it comes up for review prior to expiry in 2019. Depending on performance up to that date this could possibly mean encouraging liberalisation of the market(s).

Long-Term Actions (8-10+ years)*

- h. Provide direct financial and/or fiscal incentives and assistance for private sector investment in renewable energy production and energy saving measures. FIG to establish a specific role to coordinate energy technology options, fiscal incentives and potential purchases of energy services provision (as economies of scale are paramount within a number of these technologies).
- i. Develop a training and education programme that ties in with the Services Industry needs. This shall require the support of the relevant firms and the Education Department.
- j. Employ relevant financial services experts to advise both public and private sector on putting in place a framework (both physical and legislative) that facilitates the development of local basic capital market instruments and local fund management facilities, if deemed feasible.

Investment & Financial Support Requirements

The table below summarizes the possible financial requirements to meet the targets and opportunities identified above. Where possible the costs have been split between private, public and partnership funding requirements.

| | | Potential Investment Requirements | | |
|--------------------------------------|---|-----------------------------------|---------------|--------------|
| | | Public | Private | Partnership |
| Medium-Term | Description | | | |
| | Real Estate Development, both private and commercial (e.g. housing, office space etc) | £1.5m | £5m | |
| | Potential privatisation of elements of FIG | £1m | £500k | |
| Long-Term | Description | | | |
| | Alternative and sustainable energy source development | £1.5m | £250k | £250k |
| | Marine Services development around new or upgraded port structure | £200k | £2m | |
| Total Financial Requirements: | | £4.2m | £7.75m | £250k |

TOURISM SECTOR : STRATEGIC PLANNING

Industry Objectives

1. Create, develop, invest in and maintain a sustainable and competitive world class tourism offering and product
2. Increase the volume and value of tourism across all the sectors
3. Significantly increase the contribution the tourism sector makes to total GDP
4. Increase awareness and build a positive perception of the Falkland Islands as a tourism destination
5. Maximise employment opportunities for Falkland Islands residents

Strategy Summary

The above objectives shall be achieved by ensuring that adequate and commercially-focused international and domestic transport links with efficient passenger reception facilities exist for cruise, air and domestic tourists. The number of both domestic and international tourists shall be increased by targeted research facilitating a better understanding of the Falklands market and potential. This research shall be fully exploited for local and international marketing that is then focused in the right areas. A proportion of the marketing and product focus shall be on relevant niche markets where an image of the islands as a world-class destination in that field shall be developed, which shall help ensure year-round visitation.

To craft this world-class image, a step-change shall be made in the quantity and quality of accommodation offered whilst consistently benchmarking worldwide best practice and providing the training necessary to match that. All of this shall be achieved within the framework of nurturing the unique nature of the islands and ensuring the environment remains sustainable.

Growth Opportunities Summary

Opportunities exist across the four main sectors of the FI Tourism industry, with a couple that also cross-cut all four sectors these are:

I. Cross-cutting Opportunities

- i. Raise consumer awareness, interest and perception of the Falklands as a tourist destination. This shall involve expanding and improving both off- and on-line presence and in key target markets. This shall help increase the number of visitors across all segments and encourage additional domestic and foreign investment.
- ii. Develop non-accommodation (including recreational) services across the Islands. With a stated strategy of expanding and developing the accommodation offer in the islands, to maximise the benefit from this additional support/ancillary service development will also be needed e.g. restaurants, cafés and recreational activities such as horse riding and 4x4 driving etc.

II. Land/Air Sector Opportunities

- i. Improve and update the existing accommodation offering whilst developing new accommodation in key new sites. Upgrading existing accommodation shall allow for a better customer experience and corresponding price increase. New accommodation offerings shall increase capacity and support the intended growth in the land-based sector.
- ii. Investigate and develop new niche markets. Researching and marketing what niche markets are available on a global scale (e.g. bird-watching, sailors, etc), that can still bring in material numbers of people in FI terms.

III. Cruise Sector Opportunities

- i. Retain and in time increase the number of cruise visitors stopping in the islands. This basic opportunity exists in developing facilities and marketing that attracts more cruise-based passengers to the islands. This will also be achieved by developing a Falklands-only cruise in the local waters and islands.

- ii. Promote cruise passengers pre and post stay alongside extending the length of stay expedition vessels. The objective of the opportunity is to extract further economic benefit from cruise passengers remaining on the island longer and making the islands more attractive to smaller expedition vessels.

IV. Domestic Sector Opportunity

- i. Through marketing and promotion, encourage more residents & MPA personnel to holiday in the islands. This opportunity involves enhancing the domestic tourism offering through developing self-catering facilities and transport links, whilst investing in marketing locally.

V. Yacht Sector Opportunity

- i. Study the market potential of the Falklands as a destination for yachts. This opportunity exists as yachts men and women are traditionally high net worth individuals who spend money in the places they visit (on repairs, supplies etc). The FIs are a new and interesting place for yachts to visit so there exists significant potential for developing a marina and yacht-focused marketing strategy to attract individuals and races to the islands. This opportunity is tied to that of New Industries.

Short-Term Actions (1-3 years)*

- a. Deliver a clear strategy on targeting, market positioning and tourism promotion.
- b. Through both private and public sources increase the funds available for targeted international marketing to enhance both cruise and land-based passenger arrivals. This shall be funneled through a consolidated source (FITB) to ensure consistency and economies of scale within the framework of a single national marketing strategy. Developing international sales partnerships through commission-based sales shall be a method for achieving the marketing goals also. FITB shall also facilitate and provide training and support for improving marketing skills in the islands, especially those online.
- c. Develop a mechanism (most likely through FIDC) for providing both technical and financial assistance in enhancing accommodation offers in key sites. This shall range from business case production, right through to design and best practice and eventually how best to market and price these improvements to the customers.
- d. Further improve and expand the jetty area and landing site. This shall involve allowing for more launches to operate at once as well as clearing the area behind the public jetty for use by tourism-related businesses.
- e. FIG and Falkland Landholdings to review existing land ownership of key tourism sites. Once an inventory has been created, a group should be established to advise on possible sale/long-term lease of some sites into private hands so that they can developed to a greater degree (especially the accommodation aspect).
- f. Review immigration and work permit rules to ensure demand for seasonal labour is met in with the minimal amount of time and administrative burden, especially for smaller tourism-related companies.
- g. FIDC in partnership with a private sector firm to build a business plan and fully cost the opportunity in developing a Falklands-only cruise.
- h. Ensure a tourism strategy that incorporates sustained protection and conservation of wildlife.

Medium-Term Actions (4-7 years)*

- i. Develop a framework and maintainable benchmark system for checking port and landing charges are competitive and not a disincentive for cruise vessels (both large and small) to visit the islands.
- j. Develop a 'Tourism Development Fund' that is administered by industry stakeholders with annual public oversight. This shall be used for development of both existing and new offerings, but shall not be available as a mortgage-replacement for purchasing businesses.
- k. Provide local training to build on customer service and hospitality skills existing in the islands.

Long-Term Actions (8-10+ years)*

- l. Develop a high value/low volume tourism offer (niche market).
- m. Development of a marina and yacht-berthing facility in Stanley harbour. Creation of a local yacht club and corollary services (see New Industries development strategy).

- n. A marketing strategy and product offering to be devised for Yachts to visit the islands.
- o. Develop in partnership with the industry an internal flights and ferry schedule, pricing scheme and service that facilitates maximum growth in both international and domestic tourism.
- p. Improve road and domestic air access to highly desirable tourism sites around the Islands. This will be done through investment in more road infrastructure or improvement and airstrips and landing facilities.

Investment & Financial Support Requirements

The table below summarises the possible financial requirements to meet the targets and opportunities identified above. Where possible the costs have been split between private, public and partnership funding requirements.

| | | Potential Investment Requirements | | |
|--------------------------------------|--|-----------------------------------|------------|---------------|
| Description | | Public | Private | Partnership |
| Medium-Term | Increased international marketing of Falkland Islands (including for the yacht market) | | | £150k |
| | Upgrading and expansion of accommodation offering | | £750k | |
| Long-Term | Development of an FI-only cruise | | £750k | |
| | Development of non-accommodation related activities & infrastructure | | £500k | |
| | Marina and yacht-berthing facility development (potentially in tandem with port structure) | | | £2m |
| Total Financial Requirements: | | £0 | £2m | £2.15m |

AGRICULTURE SECTOR : STRATEGIC PLANNING

Industry Objectives

1. Increase the income gained from wool exports by 2% per year
2. Increase the income gained from meat exports by 10% per year

3. An economically sustainable agricultural industry with increasingly diverse income streams should contribute to a viable Camp economy.

Strategy Synopsis

The above objectives shall be met in part by addressing factors limiting sustainable farming, among which include low lambing percentages and animal survival rates, poor access to working capital, limited knowledge of financial and market risk mitigation, and high start-up and labour costs. The agricultural sector aims to boost farm output, income and productivity by further broadening and deepening within the industry. The strategic path consists of reducing the wool fibre diameter, raising flock numbers and yields, generating additional income from meat export (lamb, mutton and beef), complemented by improved farming practices. This shall be achieved through genetic change, and the strategic use of improved feed resources and animal health management. Helping contractual services such as shearers develop locally with the required capital, and a continuation of existing FIG support schemes and services is also required. Expanding horticulture (fruits and vegetables) shall also be a key tenet of the growth strategy in Agriculture, as it diversifies income whilst having a vital import substitution role.

Growth Opportunities Summary

There are 3 major areas of potential development and growth in the Agricultural industry, wool, meat and horticulture. Much of the strategy detailed under each of these 3 growth areas is either an extension or continuation of existing work being done.

Wool

I. Growth in wool price by fibre diameter reduction

Fibre diameter is a genetic trait and can respond well to selection over time. Based upon 2008 results, each micron reduction was worth an extra 25p/kg, although in other years it has been greater. An annual reduction in micron of 0.25 microns over the entire wool clip should increase its value by about 6p/kg or about £100,000 per year. This result will be additive and thereby accumulate each year. Twenty-two microns should be the absolute target fibre diameter for the Falkland Islands. The key enablers are:-

- i. Access to genetic stock with finer wool from the National Stud Flock, private flocks and by the importation of embryos and semen alongside Farm Improvement Programme (FIP) funding to help allay some of the costs of this strategy.

II. Growth in wool income by increasing production and productivity

Two ways to increase wool production are: (1) increase sheep flock (and raise wool yield per hectare), and (2) increase wool harvest per animal. For each percentage increase in wool cut by whatever means the value of wool exports will increase by £22,000 per year. The key enablers in reducing mortality and lifting production are:-

- i. Pasture improvement or fodder crops to provide better nutrition
- ii. Rectifying ditching or fencing hazards to prevent stock losses
- iii. Subdividing grazing areas to enable better grazing management
- iv. Genetic selection for increased wool production

III. Growth in wool income by managing exchange rate and market risk

Timing the sale of wool either in dearer wool markets or when our currency is weaker can yield extra earnings. As a way to managing risk, wool can be sold using currency options and wool contracts. Forward contracts have been used in the past and could be used again to spread risk, however these services are not very developed here. By favorably timing the wool sale, there might be a conservative 10-20p/kg gained on the more valuable wool types, representing a "one off" improvement of £170,000 per year. If achieved, then there would possibly be warehousing and cash flow costs to consider. The marketing systems to sell wool these ways are currently in place. Promotion or training on the use of these instruments may be beneficial.

IV. Growth in wool income by adding value

The Falkland Islands sells only 0.1% of the world's greasy wool production and is a price taker, unless farmers can add value in some way. Organic wool can hold a premium of perhaps 10%. Farms can join an accreditation scheme. The main constraints are the use of anthelmintic drenches and synthetic pasture fertilizers. Forty

percent of all Falkland wool can be marketed as organic, achieving a 10% premium and an additional £100,000 per year.

- i. Joint BFA/DoA Organic Accreditation scheme
- ii. Genetic selection for worm resistance, organic fertilizers, and other nutrition improvement methods
- iii. Further research on the economics of further off-shore wool processing and marketing

Meat

I. Lamb and Mutton

Mutton and lamb are traditional Falkland Island meats, but only in the last 6 years have they become export products. Export returns can be increased by increasing the number and the weight of animals available for processing, or by improving their quality. This requires a collective approach from the industry, such as that being fostered in the Livestock Suppliers Group. Better growth rates in young stock can be achieved through improvements to health and nutritional management. The key enablers are:-

- i. Pasture improvement or fodder crops to improve lamb & ewe nutrition
- ii. Ditching or fencing hazards to prevent stock losses
- iii. Subdividing grazing areas for better grazing management
- iv. Better internal parasite control
- v. FIP funding to help cover some costs of these strategies
- vi. A reliable and efficient livestock transport system

II. Improving sheep meat returns by increasing the quality processed

The major quality issue in lambs is that of grading animals outside the ideal weight and fat ranges for the specifications, both a nutritional and selection issue. Transport problems can have quality repercussions and a smoothing out of the livestock transport issue is important from a meat quality perspective. Low voltage electrical stimulation has recently been adopted at FIMCo to address meat quality issues related to transport and pre-slaughter stress, as have changes to lamb definition. Boils are the major reason mutton is condemned or trimmed. The key enablers are:-

- i. Continue electrical stimulation
- ii. Improved boil hygiene on farms
- iii. Ensure efficient, rapid and low stress transport
- iv. Live animal assessment training for farmers

III. Beef

Beef is currently slaughtered at FIMCo for the domestic market only. The efficiency of the Falkland cattle herd of over 5,000 head is low as only about 300-500 Island-wide are slaughtered annually. There is a lack of enthusiasm in the beef industry based on over supply issues in the past. EU export accreditation, which FIMCo now has, should prevent this happening in the future. Hence, the beef herd could be grown dramatically, over time, as cattle graze differently to sheep, and the two species work together very well. A coordinated "Whole of Industry" approach by Farmers, FIMCo, DoA and FIDC known as the Beef 20/20 Project which targets 7 defined sub project areas ranging from herd structure, management and health to finishing systems and continuity of supply to marketing and compliance issues.

IV. Specialist Finishing Enterprises for beef, lamb and mutton

Having some farms- presumably close to FIMCo, that could buy young stock and finish them to FIMCo specifications could be a good enterprise as some breeding farms may not have the required quality of fodder to finish stock. There will also be meat quality benefits from the shorter trips to processing. Short-term delays in transport can be buffered by a ready close supply to FIMCo. For this to work, there needs to be a fair sharing of the final payment between breeder and finisher. A full economic analysis will need be conducted into this new business opportunity.

Horticulture

The Falkland Islands is not self sufficient in the root vegetables which can be grown here, and there may also be new crops like berries that can be investigated. A number of businesses are involved in horticulture but a large quantity of fresh fruit and vegetables are imported, as well as frozen, canned and otherwise processed product. From a farm business perspective horticulture has the capacity to diversify the camp economy and provide a stable income. Given the short growing season, with shelter, poly tunnels, hydroponics, etc. production can be expanded, but catering for the domestic rather than export market.

Short-Term Actions (1-3 years)*

- a. Promote the development of the meat industry (FIMCo)
- b. Increase lambing percentages and reducing young sheep mortality, thereby growing the ewe breeding flock by increasing young ewe recruitment through continuation of FIP and PIP.
- c. Continue the supply and adoption of improved sires from the NSF and NBH the fibre diameter of the wool clip will continue to reduce, and meat growth rates will improve as these genetic traits work through the generations. This will be facilitated by DoA assistance with selection and management of elite flocks and herds and FIP funding for improving genetics.
- d. Encourage and improve the level of support for and funding of specialist and tertiary training in agriculture and agricultural-related subjects (including exchange schemes), both through the Education Department, the FIG Training scheme and DoA training days. This will help ensure longer-term sustainability of agriculture in the islands.
- e. Develop a strategy and requisite funding stream (possible public and private sector) for the growth of the Horticulture industry in the islands.

Medium-Term Actions (4-7 years)*

- f. Assist farms to develop individual business plans including genetic goals, production goals and grazing management plans.
- g. Work with interested private sector partners to develop a Finishing Enterprise that can supply FIMCo with the required level of quality export product.
- h. Broaden the Agricultural-labour scheme to also provide start-up and seed capital for the growth in number and breadth of the support-services such as shearing, fence-building etc operating locally in the islands. Other industries shall also need to be worked with to ensure that these people have work year-round.

Investment & Financial Support Requirements

The table below summarises the possible financial requirements to meet the targets and opportunities identified above. Where possible the costs have been split between private, public and partnership funding requirements.

| | | Potential Investment Requirements | | |
|--------------------------------------|--|-----------------------------------|--------------|-------------|
| | | Public | Private | Partnership |
| Short- to Medium-Term | Description | | £500k | |
| | Development of an increased horticultural industry | | £500k | |
| | Increased agricultural training courses and facilities in the islands | £75k | | |
| | FIMCo Phases 2, 3 & 4 & development of a Finishing Enterprise for supply of livestock to FIMCo | £2.47mn | £100k | |
| Total Financial Requirements: | | £2.55mn | £600k | £0 |

Industry Objectives

1. Develop sustainable and diverse new sectors to the economy that will contribute over 15% of total FI GDP within 25 years.
2. Ensure that new industry developments fit with the evolving environmental and cultural setting of the Falkland Islands, whilst not stifling innovation, ambition and vision.
3. Build new industries that will encourage the disbursement of wealth, employment and knowledge/skills amongst as many people as possible.
4. Help develop new industry sectors that can assist with diversifying and sustaining a healthy Camp economy.
5. Encourage and develop sustainable knowledge-based industries that take advantage of the increasing global trend towards such markets

Strategy Summary

The economic diversification strategy hinges on the introduction of new industries in the Falklands. The EDS spells out two recommendations both leading to a knowledge based economy. The first route builds on existing strengths, particularly in areas associated with established sectors by creating specialist, world-class research institutes and auxiliary services, mainly focusing in fisheries and conservation. The other is nestled on a new industrial policy which promotes and incubates non-traditional service exports as well as outward-focused enterprises over the long-term, including offshore business and knowledge process outsourcing (BPO/KPO), financial services, and new products and services. Both will require building a tax, fiscal, legal, structural and supportive policy environment and a competitive export element that is practical and achievable. The Falklands will be marketed internationally in a targeted manner to attract inward investments as well as possible customers for these new industry sectors. A third component is financial diversification by developing, mobilising and marketing locally sourced capital and channeling these resources to finance the investment needs of existing and new enterprises. In addition, the islands must robustly build capacity and confidently illustrate its ability to export its knowledge, skills and capabilities to other parts of the world, to bring in overseas revenues, and also expand into the global market. The new industrial policy will require innovation, creativity and ambition in order to achieve and exceed the objectives.

Growth Opportunities Summary

Seven major areas of opportunity have been highlighted in the New Industries Sector. These are:

1. Research Centres (Environment and Observatories)

Overview: This idea initially revolves around putting together an institute to offer logistical support to the many elements of existing (and also future) environmental research that is done in the Islands. FIG office space has been earmarked for this purpose if the opportunity is worth taking forward. Similarly, the Islands have some of the least-polluted skies in the world and are extremely well placed to host star observatories and the like. Further research is being done in this area by FIDC to identify potential markets and partners.

2. Offshore Business Process Outsourcing and Knowledge Process Outsourcing

Overview: This opportunity expands into service exports through the delivery of high value added activities such as software design and IT-based business services, payroll and insurance claims processing, health care BPO (such as medical transcription and hospital records management), regional services HQs and virtual offices, business analytics, market and statistical research, financial modeling, eGaming (not eGambling), etc. mainly based on grouped activities and shared offices. While the research centres options above present R&D project management services within a “centre of excellence” model, the BPO/KPO industries focus on commercial applications of ICT-based knowledge intensive activities with a heavy emphasis on back office operations with a creative design component. Build-Operate-Transfer modalities are in place to facilitate the set up of offshore BPO/KPO offices.

3. **Non-traditional (and International) Financial Services**

Overview: This is a broad opportunity that could include such items as setting up a local community bank or a credit union co-operative, a venture capital firm or even FI Online Banking and eCommerce. It is being investigated by FIDC. Another segment is to introduce an international financial services industry in the Falklands concentrating in a niche market activity such as offshore administration and management of family offices as well as captive insurance companies. It must be emphasized that this activity will be based on a low tax regime (similar to Dublin and Barbados), not operate as an offshore tax haven. This will generate service export revenues and finance sector employment for the Falkland population. The non-traditional financial services sector is linked to an overall capital market development plan which aims to attract offshore business expertise (and networking) and financial products that will diversify and link the Falkland capital market to global funding sources. It is expected that the IFSC sector will attract high value employment opportunities for corporate administrators, legal, accounting and audit professionals, etc. and offer a progressive career path for local residents as well.

4. **Lifestyle Offers**

Overview: Idea is to market plots of land to individuals (most those with a high net worth/ strong income and ability to work remotely) who may be attracted by the idea of owning land and living on a remote island where they are away from the distractions of other parts of the world while engaging in ICT-based activities. Unlike BPO/KPO above, this relates to activities performed by an independently and individually run enterprise (usually a one-person consulting operation).

5. **Seaweed Harvesting**

Overview: It is deemed that there is both a market for and an opportunity to harvest one type of seaweed in the shallow waters around the islands (it is used in foodstuffs mainly in the US). Harvesting would have a limited environmental impact. Chile is currently the largest exporters of the product. Further research is being done by FIDC.

6. **Aquaculture**

Overview: – Over the past 2 to 3 years technical testing of land-based aquaculture (trout-focused) has been done by FIDC and this has been a technical success. A business case for this to be taken forward commercially is currently being produced and private partners shall be sought. Most likely shall be limited export potential (200 tones p.a.), but could be viable.

7. **Waterfront Development**

Overview: - This is seen as a project that can help develop real estate and tourism in the islands through small vessel berthing. The historic dockyard development project is closely linked to this proposal.

Short-Term Actions (1-3 years)*

- a. Revise the existing Telecoms Ordinance to allow a transition to new authorisation regime (re-negotiate licence, better regulate and liberalise telecoms market) to develop options for mutual gain in an expanded telecoms market.
- b. Allocate sites in and around Stanley for industrial and sector development (SEZ) and/or Camp-based REEZ which offer industrial sites and business facilities to new industry players, as well as fast-tracking planning permission for both residential and corporate office buildings. Partnership to be established with developers, Bank and FIG/FIDC to develop sites and put in place accessible finance for both local and overseas investors (effecting a change in land purchase rules to facilitate this).
- c. Set up an investment promotion agency and a fast-track, one-stop business advisory, recruitment and registration service (in FIG/FIDC) for foreign JVs and foreign direct investors. Link this office with overseas universities and research institutes, BPO/KPO companies, family offices and captive insurance firms, and financial institutions.

- d. Actively mobilise FIGO, CoC and obtain FCO-support as partners in the international business attraction and recruitment work of the investment promotion agency. Formation of a task-force to deliver a coherent investment promotion policy in close cooperation with government regulators to provide a business-friendly service.

Medium-Term Actions (4-7 years)*

- e. Negotiate and establish a third “mid-week” flight via Chile, Uruguay or Brazil to improve international air connections for businessmen, investors and international travelers.
- f. Develop a strategy for reviewing the existing monopoly telecoms license when it comes up for review prior to expiry in 2019.
- g. Establish a private sector-driven skills training centre to supply skilled workers for traditional and new industries; develop a training and education programme that ties in with the new “priority” Industries” needs, including a SMSE/entrepreneurship development program.

Long-Term Actions (8-10+ years)*

- h. Enact legislation to support the creation of new industries and install a simplified regulatory regime, such as an Investment Incentives Act (also Foreign Investment Act) and an annual Investment Priorities List, an Export Promotion Act, a Special Economic Zones Act, a Build-Operate-Transfer (BOT) & PPP Act, a Financial Services Regulations Act.
- i. Provide direct financial and/or fiscal incentives and assistance for private sector investment in the new targeted “priority” industries.
- j. Introduce new investment and savings vehicles to mobilise domestic capital for economic development requirements, such as self-directed (defined contribution) retirement savings schemes, home buyers savings, further education savings, and supplemental health savings plans through money market and fixed income instruments, industrial development and/or savings bonds, mutual and private equity funds, and group insurance and risk pooling.

Investment & Financial Support Requirements

The table below summarises the possible financial requirements to meet the targets and opportunities identified above. Where possible the costs have been split between private, public and partnership funding requirements.

| | | Potential Investment Requirements | | |
|--------------------------------------|--|-----------------------------------|-----------|--------------|
| Description | | Public | Private | Partnership |
| Medium-Term | Industrial site development and business park development | | | £500k |
| | Develop an expanded training and skills programme with private sector ties | | | £150k |
| Long-Term | Develop a capability within FIG for attracting inward investment | £75k | | |
| Total Financial Requirements: | | £75k | £0 | £650k |

OIL AND GAS SECTOR : POTENTIAL SOCIO-ECONOMIC IMPACT

The advent of oil and gas drilling poses new challenges and opportunities for the Falkland economy and society. While the initial EDS discussions excluded the oil scenario, the recent successful discovery of oil precipitated the inclusion of this section to help identify and define the likely impact of oil and gas on the future economic landscape. Although the initial drilling and testing activities indicate an oil find, the appraisal stage could take up to 5 years to complete depending on rig availability and seismic evaluation. The offshore drilling activity alone will bring about some economic value added to the island's economy.

If the field analysis from the appraisal is positive and hydrocarbons flow at a commercial rate, a company(nies) may commit to a production phase. This can take many years of planning and consultation and may not result in production if the project is not acceptable to FIG and the public. This stage may extend from 1-10 years. A good example of how long this process can take is BP's North Sea Skarv development which was discovered in 1998-2000 and is only expected to go into production in August 2011.

When commercial development commences, floating production vessels will be used to extract oil. These special tankers operate on location and process the oil on board before shuttle tankers collect it for transport to a refinery. On the other hand, a commercial gas find will require an onshore processing plant connected by a pipeline to the producing field. Oil and gas production could last as long as 35 years depending on the size of the proven reserves and extraction rate from the field. Once the oil field is exhausted, the activity is wound up and the area is cleared of all infrastructures per the development plan, called the decommissioning phase.

Oil and gas are nonrenewable resources and commercial exploitation has a finite economic life. For that matter, economic policy will have to be grounded and rooted on a firm diversification strategy, as most other oil producing states have realized. But the dynamics whereby the Falkland economy operates in the next generation will undoubtedly be re-shaped and changed by the successful discovery and the possible commercial development of oil.

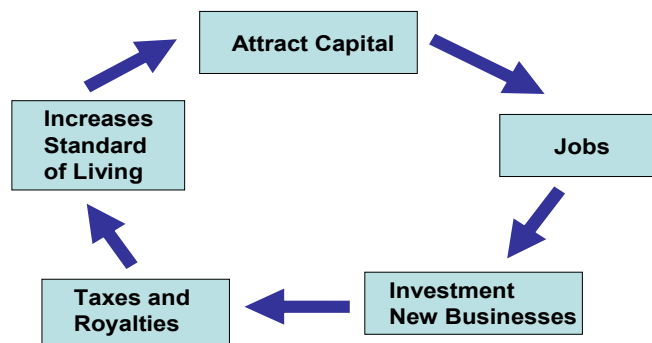
At this early stage of oil discovery and seismic testing (and further drilling), it may be premature for EDS to include oil as a new lynchpin of the Falkland economy, until at least a commercial find and reserves are proven. However, it is deemed prudent and realistic for the EDS to initially define and specify the potential impact of oil on economic development. A socio-economic impact assessment or appraisal will need to be conducted to measure the effects (direct and indirect) on the Falkland society. This will include intended and unintended, as well as positive and negative consequences of oil extraction. The SIA identifies:-

- **Demographic changes** – size and composition of population owing to migration pressures;
- **Socio-economic impact** – particularly in taxes, acreage rents and royalties , supply chain movements, as well as employment & labour mobility; potential oil and gas dependency;
- **Health and social infrastructure** – adequacy of health care due to added demand on medical facilities and operations personnel, transport and roads, power supply, fresh water supply in support of project activities and oil personnel;
- **Resources** – demand for land in respect of facilities, housing and the environment;
- **Psychological and community impact** – such as changes to traditional lifestyles, community cohesion, people's attitude, behaviour, work ethic, and risk perception;
- **Cultural property** – onshore sites and structures (expected to be minimal as drilling and extraction will occur offshore); and
- **Social equity and income distribution** – potential winners and losers.

In summary, an initial evaluation of the likely economic impact of oil discovery and development from a project cycle perspective is outlined below:-

- **Short-term effects** (during 1-5 years of drilling, testing and development)
 - Labour market will be further stretched: labour shortage = wage inflation; immigration policy again will become a critical issue
 - /+ Additional demands on air links, shipping, warehousing and containerization, hotel accommodation and catering establishments, as well as telecommunications
 - /+ Rental rates will climb, housing inflation and possibly shortage; on the positive, rental income to landlords and a boost in the construction of rental housing
 - + More licensing fee and acreage rent income for FIG
 - + Average monthly spend by drilling activity pours about \$1 million a month
- **Long-term effects** (during 1-10 years development phase assuming a commercial find)
 - + Full-scale development = multiple of above benefits (+)
 - + Taxes, acreage rental and royalty income to FIG; budget surpluses
 - + Foreign reserve surplus: establishment of an oil stabilization fund (sovereign wealth fund)
 - + Available capital for infrastructure development: full steam ahead (housing and local industries to benefit from knock on effects of commercial oil and gas development)
 - + Opportunity to “piggy back” facilities (port, transport, etc.) onto oil development
 - + Opportunity to develop oil employment and locally supportive roles
 - + Supply chain impacts; expansion of local sourcing opportunities
 - /o Relationship with UK with regards to defence cost sharing; less share of oil income
 - Potential inflationary impact on local markets for goods and services (Dutch Disease)
 - Potentially adverse environmental impact (on fisheries and wildlife), but can be cost-shared with oil companies
 - Escalating political tension with Argentina, further economic boycott & diplomatic pressure

Expected Benefits of investment by the oil and gas industry



Conclusion : Oil & Gas

- A game changer
- But still in early days
- Challenge: achieving balance
 - Ensuring environmental stewardship
 - Generating economic benefits
 - Promoting and maximising Falkland Islanders’ interest and involvement in oil industry development

APPENDICES

Scenario Analysis: Economic Vision and Growth Projections

An Explanation Note

In preparing an economic development strategy (and subsequent annual action plans), it is customary to present an economic model, a planning tool with macroeconomic targets or forecasts projecting into the future, similar to a long-term corporate plan or business plan which contain financial and market projections. The purpose of this section is to provide a glimpse of how the future Falkland economy could evolve and take shape if the proposed policy actions and intervention are pursued.

The economic and population projections are a result of the economic model wherein each industry sector is targeted to grow at a certain pace in the long-term, and how demographic trends (i.e., low net reproduction, ageing population, and migration) will shape the islands' future industrial capacity and labour market (size and characteristics of the workforce).

In preparing an economic model and the scenario analysis that ensues, growth accounting is utilized. Growth accounting and modeling looks at 3 sources of economic growth, namely: (1) **labour** (i.e., how many are actively working and looking for a job); (2) **capital** (how much savings and investment are raised and required to grow the economic pie); and (3) **total-factor productivity** (how much increase in output is not caused by labour and capital, usually from technology, innovation, good weather, etc.). In the past 10 years (1998-2007), the FI economy grew at an annual rate of 4.1%.

A quick way to spur growth is to get more people working, or to get existing workers to put in more hours. Based on the above model, employed labour has not been the primary contributor to output growth because there was not enough additional workers hired nor was there an absolute increase in the number of new jobs. In fact, the labour contribution to growth was negative at -1.2% pa. Demographic factors led to a small drop in the employment rate (% of workers employed to total labour force) and a much faster decline in the number and growth in new labour force entrants (measured by, the labour force participation rate or % of those working and in search of jobs to total population).

Rising productivity, nurtured by investment in new technologies, plant and equipment, enable workers to produce more from each hour of labour. Past economic growth in the islands came primarily from a 2.3% annual gain in the productivity of labour (or GDP per worker) through a combination of higher value of output without raising the number of workers deployed (or even a decline in employment levels). Thanks to smarter working through technological improvements and ICT. Another 3.1% of the annual gain from the productivity of capital employed (rate of return on investment per worker) is partly attributed to returns from investments abroad and the profitability of local firms. How sustainable productivity gains can stretch over time is dependent on the availability of workers (which is limited by population constraints and a trickle immigration policy) and/or capital (from domestic savings, foreign investment income and fisheries license fees, as well as inward investments which boost local output).

Given the current demographics, there is limited scope for substantial labour productivity gains if the workforce size remains constant at 1,755 workers (despite slow immigration) and population at around 3,000. The future workforce will be constrained because the population is not being replaced by newborns. It is gradually depleting because the population is ageing (and eventually will be dying away). And productivity gains from younger workers (who generally tend to be more productive than the older ones) could be sapped by the growing pension and tax burdens.

Foreseeably, available domestic capital (needed for investments to expand the economy) will be restricted by the bigger financial liabilities facing the growing ranks of retirees and generally the lower savings potential of this group (i.e., as retirees tend to save less). An ageing population implies a higher social cost in terms of health and pension assistance. And a low natural reproduction rate (i.e., less than 15 new births a year net of

deaths) means the workforce will not have more workers to support a larger share of retired population than today. Ideally, a sustainable economy needs 6 workers to support each dependent retiree. Currently there are 5.2 workers supporting a retiree. By 2034, the ratio will go down to 2.4. Not only will the workforce have to support more pensioners, but this workforce as well is becoming older (with median age of 37 today rising to 45-50 by 2034). It is foreseen that the labour situation will get even tighter (i.e., not enough workers to man the shops, run the farms and machinery, and to support the young and the elderly).

If oil is proved to be present in commercial quantities and is subsequently developed, the capital gap can be easily bridged. However, a fully sustainable society will still require workers to run the economic engine and support a certain population mass. Without enough workers, the cost of labour escalates, thus fuelling inflation (rising prices of goods and services, housing, taxes, etc.). In essence, this is already the state wherein the FI economy rests today. For that matter, immigration becomes a crucial factor to address the gaping hole in the labour supply (availability of workers). Capital (e.g., surplus income from oil revenues) if not invested for productive use can equally trigger further and rampant inflation (Dutch Disease), cause a property bubble, and create a false sense of wealth.

The economic model assumes a growth of 4-6% pa is reached in the next 25 years. This can only be achieved through a combination of the 3 factors discussed above. More labour, more available capital, and incremental gains from the productive use of both. Naturally, this will require saving and investing more in physical and human capital capacity building. If the long-term objective is to maintain the present standard of living (£34,700 per capita GDP) at today's prices, then, the ageing population and stagnant size of the workforce cannot sustain this target without employing more people (i.e., via immigration or more reproduction).

Otherwise, without economic growth and population growth, the size of the economy will start to contract or will be eroded by inflation (i.e., imported goods will cost more and wages will spike upwards with a labour shortage). At zero population growth, today's £34,700 per capita GDP would translate to a nominal income of £31,280 in 25 years time (a 10% decline due to the ageing population and the shrinking workforce). Assuming a 4% historical inflation rate, the projected per capita GDP of £31,280 will only be worth £10,430 in today's prices. This means a 70% decline in real living standards! From a First World standard of living, the future population (if kept at 3,000) faces the prospect of downgrading to a middle-income living standard.

In a way, from a historical perspective, Camp is a microcosm and bellwether of the future FI economy. From a thriving sector (generations ago), afflicted by depopulation and now an ageing population (average and median age of Camp operator is 51 years), long-term sustainability becomes an overriding concern. The next factor that will be impacted is productivity (if there is absence of available labour and limited capital, as well as better income-earning opportunities). If Camp remains an unattractive place to live and operate a business, the economic prospects will become bleaker. Similarly, with a small population (and an ageing workforce which barely replaces itself through trickle immigration or natural reproduction), and the escalating cost of operating a business (rising wages and taxes) and inflation that comes with it, growth potential will be curtailed.

Unless substantial capital flows come from oil revenues and/or from the rejuvenated fisheries, agriculture and tourism sectors (i.e., more profits and higher real – not inflated – earnings potential), future economic growth prospects will be minimal. Either the future economy reinvents itself and upgrades to higher value activities or finds alternative revenue streams from new factor endowments (i.e., oil or a highly skilled/educated labour force).

As EDS propounds: achieve higher economic growth through broadening and deepening within the core sectors, diversifying into new (higher value) industries, opening up to new export markets and foreign capital, absorbing more workers, while awaiting the benefits of an oil economy to flow through. Without the latter, sustaining the present standard of living by 2034 will be a major challenge, unless there is a major restructure of the Falkland economy (and social priorities) as described in the economic model (scenario analysis) below.

Appendix 1. GDP and Population Projections, 2009 - 2034

| | 2007 GVA (£mn) | Pct Share | Historical Growth Rate | Notional Growth Rate | 2009 (£mn) | Pct Share | 2014 (£mn) | Pct Share | 2019 (£mn) | Pct Share | 2024 (£mn) | Pct Share | 2029 (£mn) | Pct Share | 2034 (£mn) | Pct Share |
|---------------------------------------|----------------|-----------|------------------------|----------------------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|
| Fisheries | 65.4 | 60% | 4.2% | 2.5% | 68.7 | 59% | 77.7 | 57% | 88.0 | 54% | 99.5 | 51% | 112.6 | 46% | 127.4 | 38% |
| Government | 15.1 | 14% | 0.3% | 1.5% | 15.6 | 13% | 16.8 | 12% | 18.1 | 11% | 19.4 | 10% | 21.0 | 8% | 22.6 | 7% |
| Comm, Fin, BusSvc, RE | 11.4 | 10% | 4.0% | 4.0% | 12.3 | 11% | 15.0 | 11% | 18.3 | 11% | 22.3 | 11% | 27.1 | 11% | 33.0 | 10% |
| Trade, Hosp., Transport | 8.7 | 8% | 6.9% | 6.9% | 9.9 | 9% | 13.9 | 10% | 19.3 | 12% | 27.0 | 14% | 37.6 | 15% | 52.4 | 16% |
| Construction | 6.3 | 6% | 23.9% | 7.0% | 7.2 | 6% | 10.1 | 7% | 14.2 | 9% | 19.9 | 10% | 27.9 | 11% | 39.1 | 12% |
| Agriculture | 2.3 | 2% | 3.6% | 3.0% | 2.4 | 2% | 2.8 | 2% | 3.3 | 2% | 3.8 | 2% | 4.4 | 2% | 5.1 | 2% |
| New Industries | 0 | 0% | na | 26.0% | 0.2 | 0% | 0.5 | 0% | 1.6 | 1% | 5.1 | 3% | 16.1 | 7% | 51.3 | 15% |
| GDP (1998 constant prices) | 109.2 | 100% | 4.1% | | 116.4 | 100% | 136.8 | 100% | 162.7 | 100% | 197.0 | 100% | 246.7 | 100% | 331.0 | 100% |
| CAGR (% pa) | | | | | 3.2% | | 3.3% | | 3.5% | | 3.9% | | 4.6% | | 6.1% | |
| GDP ex-New Industries | 109.2 | 100% | | | 116.2 | 100% | 136.3 | 100% | 161.1 | 99% | 191.9 | 97% | 230.6 | 93% | 279.7 | 85% |
| CAGR ex-New Industries | | | | | 3.2% | | 3.2% | | 3.4% | | 3.6% | | 3.7% | | 3.9% | |
| Required Population (@£35K pcGDP) | 3,001 | | | | 2,009 | | 3,009 | | 4,649 | | 5,628 | | 7,050 | | 9,457 | |
| Required Population Growth (% pa) | | | | | 5.4% | | 3.5% | | 3.8% | | 4.2% | | 5.1% | | 6.8% | |
| Pop'n at current immigration levels | | | | | 3,075 | 92% | 3,076 | 79% | 3,077 | 66% | 3,078 | 55% | 3,079 | 44% | 3,080 | 33% |
| Additional immigration level required | | | | | 249 | 8% | 833 | 21% | 1,572 | 34% | 2,550 | 45% | 3,971 | 56% | 6,377 | 67% |

Appendix 2. GDP Breakdown and Fiscal Projections, 2009 - 2034

| GDP Breakdown | | 2007 | 2034 | 2007 | 2034 |
|--------------------------------------|--|--------------------|--------------------|---------------|---------------|
| GDP (in 2007 constant prices) | | 104,120,000 | 331,400,000 | 100.0% | 100.0% |
| Breakdown of Demand: | | | | | |
| 1) Consumption (C+G) | | 56,400,000 | 232,100,000 | 54.2% | 70.0% |
| a) Private & Household Consumption | | 41,700,000 | 182,100,000 | 40.0% | 54.9% |
| b) Government Consumption | | 14,700,000 | 50,000,000 | 14.1% | 15.1% |
| 2) Investment (GDCF = I) | | 17,620,000 | 82,800,000 | 16.9% | 25.0% |
| a) Private & Household Investments | | 10,210,000 | 49,700,000 | 9.8% | 15.0% |
| b) Government Investments | | 7,410,000 | 33,100,000 | 7.1% | 10.0% |
| 3) Current Account (X-M) | | 30,100,000 | 16,500,000 | 28.9% | 5.0% |
| a) Exports | | 134,100,000 | 343,500,000 | 128.8% | 103.7% |
| b) Imports | | 104,000,000 | 327,000,000 | 99.9% | 98.7% |
| Per Capita GDP | | 34,695 | 35,043 | | |
| Population | | 3,001 | 9,457 | | |
| Breakdown of Demand: | | | | | |
| 1) Consumption (C+G) | | 18,794 | 24,543 | | |
| a) Private & Household Consumption | | 13,895 | 19,256 | | |
| b) Government Consumption | | 4,898 | 5,287 | | |
| 2) Investment (GDCF = I) | | 5,871 | 8,755 | | |
| a) Private & Household Investments | | 3,402 | 5,255 | | |
| b) Government Investments | | 2,466 | 3,500 | | |
| 3) Current Account (X-M) | | 10,030 | 1,745 | | |
| a) Exports | | 44,685 | 36,322 | | |
| b) Imports | | 34,655 | 34,578 | | |

FISCAL PICTURE

| | 2007 | 2034 |
|--|-------------------|-------------------|
| Total Revenues | 42,391,000 | 85,642,800 |
| Revenue Effort (Pct of GDP) | 40.7% | 25.8% |
| 1) Taxation | 10,755,100 | 23,959,500 |
| a) 2007 Personal Income Taxes | 4,300,000 | 4,300,000 |
| b) 2034 Incremental PY Taxes | | 6,610,000 |
| c) 2007 Corporate Income Tax | 5,700,000 | 5,700,000 |
| d) 2034 Incremental CY Taxes | | 4,970,000 |
| e) Airport Tax | 755,100 | 2,379,500 |
| 2) Indirect Taxes | 803,300 | 12,423,300 |
| a) Customs Duties | 803,300 | 3,323,300 |
| b) Consumption Taxes (GST, etc.) | 0 | 9,100,000 |
| 3) Fisheries Licence Fees | 15,770,000 | 29,400,000 |
| a) Illex | 6,150,000 | n.a. |
| b) Loligo | 5,000,000 | n.a. |
| c) Other Fisheries | 4,620,000 | n.a. |
| 4) Other Licence Fees | 589,000 | 1,860,000 |
| 5) Investment Income from Abroad | 13,100,000 | 18,000,000 |
| 6) Others | 1,373,600 | n.a. |
| Balanced Budget: Expend/GDP Ratio | 42.3% | 25.8% |
| Government Value Added | 15,100,000 | 22,600,000 |
| Government Expenditures | 44,060,000 | 82,750,000 |
| Government Reserves | 81,600,000 | 225,000,000 |
| Ratio of Reserves to Expenditures | 1.9 | 2.7 |