

CONFIDENTIAL.

189

MIN/KEL/1#9

# SECRETARIAT

0004/IV

0004/IV

0004/IV

(Formerly)

## ALGINATE INDUSTRIES LTD.

### CONNECTED FILES.

NUMBER

472/28

Exploitation of Kelp.

11/46

Seaweed required by the Colonial Office.

52/46

Forestal and Timber Co.

Kelp Industry in the Falkland Is.

0004/18

British American Kelp Co. - Power Supply.

0004/19

" " " - Housing.

0004/10

" " " - Labour.

2458

Seaweed.

Held on 25th, 26th and 27th AUGUST 1970

327

0004/ISI

19. ALGINATE INDUSTRIES LTD. (Memo 61/70)

Council considered the matter of a site for the pilot plant for Alginate Industries Ltd. and their request to be permitted to use the Falkland Islands Company's boatyard site on the east side of the West Jetty for this purpose. It was agreed that provided there were no objections from a health point of view (as to which the Senior Medical Officer would advise through the Foreign and Commonwealth Office) the necessary permission could be given to Alginate Industries Ltd for use of the site in question. No permission should, however, be granted until definite confirmation had been received from Dr Ashmore. On the subject of the use of water by Alginate Industries Ltd at the proposed pilot plant, Council recommended the installation of a water meter and that a charge should be levied for every gallon used in excess of 300 gallons per day (a daily rate of 300 gallons being allowed free). No difficulty was envisaged over the supply of electricity.

*G. Young*

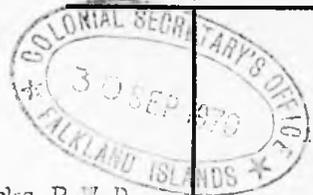
Sec. CLERK OF COUNCIL

328

No. FWD 040

MEMORANDUM

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



28th. September, 1970.

To: Acting Colonial Secretary,

STANLEY.

From: Superintendent of Works P.M.D.

Stanley, Falkland Islands.

SUBJECT :- Alginate Industries - Water Supply.

Further to our telephone conversation of possible alternative charges.

E.S.R.O. pay into Government £22. 16s. -d.

*Staley*

Superintendent of Works.

324 +  
325 m  
Vol III  
refer.





6th October

70

Alginate Industries Limited

As I write, the difficulties about the siting of the Stanley pilot plant of Alginate Industries Limited have been overcome. The pilot project is beginning to go ahead, with some construction work at the site starting in anticipation of the arrival of the machinery on the n.v. "A.E.S." in a few days' time.

This situation prompts me to ask whether you have any news either of progress on the company's negotiations with the Ministry of Defence (Navy) regarding the Camber site for the main plant; or on the company's or the Falkland Islands Company's search for alternatives to the Ministry of Defence (Navy) as suppliers of oil, as to which one or the other company, or both, were going to keep you in the picture (I am not overlooking certain other considerations in this connection: but it would be of interest to know whether either company did take the trouble to let you know what progress they were making in their negotiations with the suppliers whom they mentioned at the meeting with the Ministry of Defence which we attended on the 22nd of June); or on the ultimate question of negotiations on royalties. These, and especially the last, would be items on which it would be particularly useful for Lewis to be briefed regarding the latest position shortly before he leaves for the Colony. I would also expect it to be an aspect of affairs which would be of particular interest to him.

(J. A. Jones)  
Ac. Governor

See 352

A.C.W. Lee, Esq.,  
Gibraltar and South Atlantic Dept.,  
Foreign and Commonwealth Office,  
London, S.W.1

copy to file 0014/VI

BU 20.11.70 hcc

7th October

70

ALL Ref: Letter (Pery/Jones) of 2.9.70

7  
10

323 Long before this letter reaches you you will have had my telegram of the 21st of September saying Gooch had been told the pilot plant arrangements could go ahead. The delay was due to a hitch in communications - Ashmore's clearance of the health aspects failed to get through to me when it should have done. Meanwhile, Gutteridge, who is currently in London for a few weeks on duty, was, before he left here on the 15th of September, in touch with Gooch on the electricity side and I gather has since seen you in London.

I am glad that it was possible for Ashmore to see your Girvan plant for himself and to satisfy himself about the difference in your processes there and here in the pilot plant stage. I very much hope that some other officials ( I have in mind Cleodell, the Colonial Treasurer, who will be spending part of his leave in England next summer) will be able to visit the Girvan plant as well, and, though I appreciate that you would be reluctant to allow literally anybody to see it, perhaps some prominent unofficials as well, should they be in Britain in the next year or two, so that we have a small nucleus of people here who understand what you are doing and how, broadly, our local raw material is processed. I am not, of course, suggesting anything which would imperil commercial secrets.

For myself I found my visit to your Girvan plant instructive and interesting and hope, with your indulgence, to be able to repeat it on some future occasion when Falkland Islands kelp is being processed there.

(J. A. Jones)  
Ag. Governor

Michael  
The Hon. ~~H.C.~~ Pery,  
Alginate Industries Ltd.,  
120, George Street,  
Oban,  
Argyll,  
Scotland.

P.328

Please now take over the question of the arrangements about metering of A.I.L.'s water supplies at the boatyard site. As at 23.9.70 the arrangement was that S.P.W. would get in touch with Gooch on 25.9.70 about it if Gooch had not approached him earlier than that (see para.2,p.324, and Note 2, p.325, both in vol.3 attached); while the reference to E.S.R.O. in the same Note and in S.P.W.'s memorandum p.328 in vol.4 was an endeavour to discover whether significant revenue accrues to government from E.S.R.O. in respect of water. A brief discussion with S.P.W. should serve to bring you up to date and should help to indicate on what scale we might charge A.I.L. for water used in excess of amounts of 300 galls per day. (S.P.W. hasn't stated the basis of the current charge to E.S.R.O. However, you may know what it is.)



(J. A. Jones)  
Ag. Governor  
7/10/70

333

# ALGINATE INDUSTRIES LIMITED

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

22 HENRIETTA STREET, LONDON, W.C.2.  
 From: 120 George Street, Oban, Argyll.

TELEPHONE:  
 01-836 0451/4.  
 01-836 0142/3.  
 TELEGRAMS:  
 "ALGINATES, LONDON, W.C.2"  
 CABLES:  
 "ALGINATES, LONDON, W.C.2"  
 BENTLEY'S SECOND PHRASE.  
 TELEX. 23815.



28th September, 1970.

The Colonial Secretary,  
 Port Stanley,  
 Falkland Islands.



Dear Mr. Jones,

I hope that by now you will have received an assurance from Dr. Ashmore in person that there is no risk of pollution from our activities with the Pilot Plant.

x || I understand that there is some question that Messrs. Gooch, Jones and Henricksen will not be considered by the Government to be eligible for a loan to buy a house should the occasion arise. I am somewhat puzzled as, during the conversations that Mr. Merton and I had with the Governor, there was never any question of the Company building houses for the small number of Staff who would be required at the Pilot Plant stage. When I was in the Falklands last year, the question was discussed with reference to the operation of the main plant at the Camber when we should be likely to be employing some 16 to 20 people. The Governor expressed the view that it was unlikely that the Falkland Islands Government would be able to finance housing on this scale and I explained that, as a small Company, we would be stretched to the limit of our resources in financing the plant for the Falkland Islands and that we did not regard the provision of housing as a normal commercial responsibility. It was agreed that this question should be left until nearer the time when a clearer picture of our requirements would emerge.

In view of this, and the fact that two of our three employees for the Pilot Plant are Falkland Islanders, I do hope that the Government will treat any application for a house loan strictly on its merits. I am sure that you will agree that it seems unreasonable that an employee of/



See 340

of Alginate Industries should be treated differently in this respect when there is no question of the Company providing housing for them.

Yours sincerely,

M. Pery *per 2*

M.H.C. Pery.

p.s. I apologise for not signing this letter personally but I shall be away in the Outer Hebrides and I understand Monday is the deadline for catching the "Darwin" mail.

MEMORANDUM

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

9th. October, 19 70.

To: Acting Colonial Secretary,

STANLEY

From: Superintendent of Works P.W.D.

Stanley, Falkland Islands.

SUBJECT :-

Alginata Water Supply.

Further to the question of a meter and excess of 300 gallons per day.

I was not contacted by Mr. D.F. Gooch and I visited him at his workplace after consultation with the Acting Colonial Secretary.

The discussion was mainly on the installation of a meter and the results were not in the affirmative. He appears to feel strongly that they will not be using anywhere near 300 g.p.d., he maintains they will only be filling two tanks on alternate days with a capacity of approximately 150 gallons.

I reminded him of the Colonial Secretary's Memo, requesting a meter be installed, his reaction was that it was overlooked and at the moment unimportant because with the exception of a W.C. no other water is being used.

I asked him if he would acknowledge the Colonial Secretary's Memo by mentioning his intentions, and he agreed that he would do that by return letter to the Colonial Secretary.

Superintendent of Works.

336

J/13/16

Alginate Industries Ltd.  
Box 214. Port Stanley.  
Malkland Isles.  
12th October.1970.

J A Jones Esq.  
Acting Colonial Governor.  
Port Stanley.

Dear Mr Jones.

324 please forgive me for not having acknowledged your communication of the 21st ult. Ref 0004/111 re Pilot Plant, which unfortunately was overlooked in the haste of getting the concrete floor laid as soon as possible to try and have all ready in time to receive the plant arriving in the AES.

After making enquiries in various quarters, the conclusion has been arrived at that there is no water ~~now~~ available in the Colony, and we have now ordered one to be sent out from the UK for installation in the 1 inch pipeline which will be our main supply. The Pilot Plant has been planned to make use of seawater wherever possible, with the economy of the town water supply in view constantly, and we do not think that the average consumption will exceed the 300 gallons per day stipulated. Later when we commence the experiments of working the whole process using solely seawater, there will naturally be a great reduction in the consumption estimated as being our needs in the initial stage.

We are pleased to report that a certain amount of leeway has been made up after the initial unfortunate delay, and we hope to get things working in due course satisfactorily.

X reverting to the question of the water consumption. The quantity consumed will be uncontrolled until such time as we are able to instal the meter, and therefore we would suggest that perhaps an arrangement can be arrived at as soon as the plant is ready to operate, whereby someone from the water Dept can make a study of a working cycle of our process to provisionally assess any excess of the stipulated 300 gallons, until such time as the meter is functioning.

We conclude by assuring you that there will never at any time be cause for objection from the point of view of health or as regards to pollution arising from the operation of the pilot plant in it's present site.

Yours sincerely.

D H Gooch.

C.S. Please acknowledge on my behalf.

2 If SPW can, before that, confirm that he can arrange for action as at X to be taken, you could include reference to it in your reply to Gooch.

J/13/16

14th October 70

To: Superintendent of Works,

From: Acting Colonial Secretary,

STANLEYAlginate Industries Ltd. Water Consumption

Mr Gooch confirms that a water meter is on order. Until it arrives and is installed he suggests -

"The quantity consumed will be uncontrolled until such time as we are able to instal the meter, and therefore we would suggest that perhaps an arrangement can be arrived at as soon as the plant is ready to operate, whereby some one from the Water Dept. can make a study of a working cycle of our process to provisionally assess any excess of the stipulated 300 gallons, until such time as the meter is functioning."

2. Please confirm that you could exert adequate control over the consumption of water by this means.

(Sgd) L. Gleadell.

ACTING COLONIAL SECRETARY

338

y.6  
-

To see mail at 333 pl.

§

.. 15.10.70

339

No. PWD 040

MEMORANDUM

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

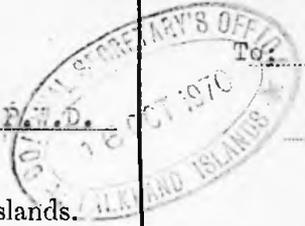
16th. October, 19 70.

To: Acting Colonial Secretary,

STANLEY.

From; Superintendent of Works P.W.D.

Stanley, Falkland Islands.



SUBJECT :- Alginate Water Supply.

Your Memo 0004/IV of 14th. October, refers.

Yes, I will get the flow rate assessed and obtain working hours from Mr. Gooch and record anything that may be in excess of 300 gallons per day.

*Stanley*

Superintendent of Works.

23rd October 1970

333

Thank you for your letter of the 23th of September.

You will appreciate that I cannot be certain in advance as to what decision is likely to be taken on a particular individual's application for a loan for house purchase. Loans for house purchase are dealt with by the Standing Finance Committee of the Legislature, each case being considered on its own merits. This point having been made, the further point must be made that there has never been any question of commitment by this Government on the matter of housing. The tentative proposals on the subject made in my letter to you of the 24th of July 1969, were not followed up by your company and since, in your letter to the Colonial Secretary of the 8th of October 1969, you specifically wrote:

172 in Vol. III  
197 in Vol. III

"We shall be responsible for providing any houses required for the Pilot Plant and, at this stage, we merely intend to make the point with the British Government, when discussing financial assistance, that we do not consider the provision of employees houses to be a normal commercial responsibility."

this Government is without any special commitment in respect of the persons you mention in your recent letter.

(L. Gloddell)  
Acting Colonial Secretary

The Hon. Michael Perry,  
Alginite Industries Ltd.,  
120, George Street,  
Oban,  
Argyll,  
Scotland.

(1. 404 in 0936/11 H/S)

FA

341

Stanley,  
13 Nov. 1970.-

The Honourable The Colonial Secretary,  
Stanley.

Sir,

We confirm having told you verbally that we may be instructed to harvest up to 700 tons, dry, of *LESSONIA FLAVICANS* (known locally as one of the two species of "tree" kelp). That total would be about 3500 tons of wet *LESSONIA FLAVICANS*.

When and if definite orders are given we will advise you immediately and request the necessary permission to cut, dry and export.

Yours faithfully,

*James Jones*

for Alginate Industries Limited.

*J.S.* I discussed this with Mr. J. yesterday.  
Apparently there are two forms of *Lessonia*,  
one growing inshore about the lower tidal level  
mark & the other in deeper non-tidal waters.  
They are now interested in the shallow water species.

I remarked on the quantity & questioned whether they wd be able to handle such a mass at the pilot site but he said the plan was to dry it in the open at the Cambu site if this cd. be arranged. They shall await confirmation of the Department.

14.11.70.

A.C.S.

A quantity of this kind does not appear to come within the normal scope of P.M.F. Plant operations: indeed it is evident that the P.M.F. Plant cannot cope with it. In these circumstances I consider the company should, without prejudice, make us some form of payment. (As you know, the royalty negotiations are being handled on our behalf in Britain & are not finished, so we are not in a position to state a specific royalty payment yet. My suggestion would be that the company should make us a without prejudice payment, which we can place in deposit, at the rate of £2 per ton = £1,400.) Please discuss with W. Gorch: but sp. to me telephonically first.

J  
11/4/11

J.E.

I discussed with Mr. Good this morning.

2 He agrees that such an operation wd. not come within the scope of his first plant & in fact expects to suspend much of the ~~first~~ plant work while such an operation is in progress. He understands that his company cd. be expected to pay royalties but wd. wish that such negotiations as are necessary & conducted direct with his principals in the UK.

3 He is however sceptical about the success of such a large harvest with the restricted facilities he has at his disposal. Apparently they encountered many difficulties in obtaining the small tree consignment they sent out by AES last week.

4 He mentioned that there are strong indications that the lesson flavicous could be in higher demand than the more commonly used macrocapite since only about 50% of the crude required obtained requires refining for use in the textile industry.

5 He will keep us advised of any developments.

1/3/73

ACS

These papers should be appropriately filed.

2 It will clearly not be convenient to conduct such negotiations by telegram with ATK in London. The whole purpose of the company being a L.M. on the spot must be to enable us to conduct negotiations with him. I hope that your talk with Mr Good will have

344

prompted him to apprise his London office of our initial  
view of this particular matter.

J/18/11

S/c

~~on file~~

~~19/11~~

20th November

70

Dear Sir,

You will recall that your principals accepted the cost of Mr. and Mrs. Henricksen's passage from the United Kingdom to the Falkland Islands, and I understand that the initial cost has already been met. When the Henricksens left Stanley on leave we were unable to secure premium accommodation for their return by "Darwin" and asked that the couple be wait-listed for this service. Premium accommodation was eventually secured and Darwin Shipping Limited have submitted the enclosed account totalling £12 19s. 0d. for the difference on these passages.

I should be grateful if you would arrange payment direct to Darwin Shipping Limited.

Yours faithfully,

(H. L. Bound)  
for Colonial Secretary

The Colonial Manager,  
Alginat Industries Limited,  
Stanley.

JB

(HGF 7/1)

29 October, 1970.

I have had a letter recently from John Jones who is acting as Governor in Stanley during the interim between the departure of Sir Cosmo and the arrival of Mr. E.C. Lewis. He tells me that your pilot project is beginning to go ahead and we in this office were delighted to hear about this.

I expect your Chairman is likely to be in touch with Mr. Lewis before he leaves to take up his post and that the state of play on various matters outstanding will be discussed between them. Be this so or not, I think we should have a record on our files as to the progress made and I can if necessary inform Mr. Jones in Port Stanley. The points that immediately come to my mind, arising out of the meeting in June, are the following:-

- (1) Progress concerning negotiations with the Ministry of Defence (Navy) concerning the Camber site for the main plant.
- (2) The position with regard to alternative suppliers of oil.
- (3) The position with regard to the negotiations concerning royalties.

I would be most grateful if you would let me have a note on these questions.

  
(A.C.W. Lee)

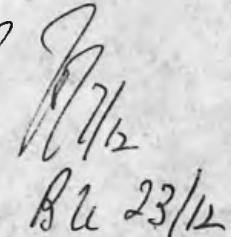
Copied to 0014/IV -

Supply of Petrol Paraffin & Oil.

M.H.C. Pery, Esq.,  
Alginat Industries Ltd.,  
120 George Street,  
Oban,  
Argyleshire.

H.C.S. Has anything further transpired i.c.w. pp. 341-4.

J.E. They are still awaiting instructions from their Head Office. 19.12.70

  
BU 23/12

348

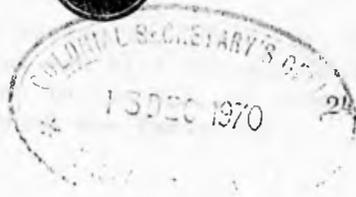
# ALGINATE INDUSTRIES

LIMITED

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

22 HENRIETTA STREET, LONDON, W.C.2.  
 From: 120 George Street, Oban, Argyll.

TELEPHONE:  
 01-836 0451/4.  
 01-836 0142/3.  
 TELEGRAMS:  
 "ALGINATES, LONDON, W.C.2"  
 CABLES:  
 "ALGINATES, LONDON, W.C.2"  
 BENTLEY'S SECOND PHRASE.  
 TELEX. 23815.



24th November, 1970.

The Colonial Treasurer,  
 Colonial Secretary's Office,  
 Stanley,  
 Falkland Islands.

*L.G.*

Dear Mr. Gleadell,

340

Thank you for your letter 0004/1V of 23rd October in reply  
 to my letter to the Colonial Secretary concerning loans for housing.

333

I fully appreciate the situation whereby each application for  
 a loan for purchasing a house is dealt with according to its merits by  
 your Standing Finance Committee. The only point that I wished to query  
 was the statement reported to me that any employee of Alginate Industries  
 in the Falkland Islands would be automatically debarred for a house purchase  
 loan. I hope that I understand from your letter that this in fact is not  
 the case.

*Fig in Vol. III*

I feel that I ought to place in perspective the paragraph that  
 you quote from my letter to the Colonial Secretary of 8th October. At  
 that time, we envisaged a somewhat larger Pilot Plant on the Mink Farm  
 Site in order to wash and dry kelp in sufficient quantity to enable us to  
 carry out full scale plant trials at our Scottish Factories. This would  
 have entailed employing two or three labourers to assist with gathering  
 kelp. I had presumed that these labourers would not have been able to  
 afford to buy their own houses even if they had so desired and we therefore  
 accepted that we would be responsible for providing houses for them on the  
 grounds that Alginate Industries would not be contributing to the economy  
 of the Falkland Islands until the full scale plant was operating.

As you know, the Pilot Plant is now a smaller affair and our  
 three employees are people who would wish to buy their own homes in the  
 normal way as they see their future in the Falkland Islands.

/-



THE BRITISH IRON AND STEEL INDUSTRY

I fully understand your statement that the Falkland Island Government is without any special commitment as regards housing these people and I thus feel, that if and when the occasion arises, an application for a loan for house purchasing should be treated in the normal way according to the merits of the individual concerned.

We much enjoyed seeing Mr. Jones, Mr. Pitaluga and Dr. Ashmore this Summer and I hope that you will try and find time to see our set-up when you next return to the U.K. on leave. We should be only too pleased to show you round the factories.

Yours sincerely,

*Michael Pery*

M.H.C. Pery.

# Berk Limited

7  
11/12

Berk  
350

Berk House P.O. BOX 1 BL 8 Baker Street London W1 Telephone HUNTER 6688  
Telex 23796 · Cables Berk London



Your ref :

E.G. Lewis O.B.E.,  
Governor and Commander-in-Chief,  
Port Stanley,  
Falkland Islands.

Our ref: EVC/MC

26th. November 1970.

Your Excellency,

As you may know, Berk Limited is a medium-sized chemical Company with an annual turnover in excess of £20,000,000.

Whilst a not inconsiderable range of chemicals is manufactured on several sites within the U.K. an even wider range of chemicals and other products is handled for other Companies throughout the world.

Very recently we have had a visit from a representative of a Japanese firm with whom we are in contact over various matters. During our conversations it transpired that this Company is keen to extend its production of alginates. Knowing of the suitability of Falkland Islands sea-weed for alginate production I thought I should write to you and, if possible, enlist your help.

Two obvious questions come to mind :-

Can Falkland Islands alginate-type sea-weed be compressed such that its subsequent cost of transport to Japan, where processing would be carried out, would not prove prohibitive.

What would be the approximative cost per ton of this compressed weed and its approximative alginate yield.

Any help you can render with these admittedly difficult questions would be much appreciated.

Yours faithfully,  
BERK LTD.

Dr. E.V. Caldwell,  
Technical Manager.

N.B. I am aware of Alginate Industries earlier much-publicized interest in Falkland Islands sea-weed but I am under the impression, perhaps wrongly, that they did not in fact erect the processing facilities they originally intended.

S/C FR to me on 0004

11/12

351

21st December 1970

Dear Sir,

As Mr. Lewis has not yet assumed duty here I am replying briefly to your letter to him.

In fact Alginate Industries Limited are in the process of establishing a pilot plant here.

As to your questions, I fear that the material is not available to me to enable me to answer them. I can only suggest that you make enquiries of Alginate Industries Limited at their 22 Henrietta Street, London office.

(J. A. Jones)  
Acting Governor

Dr. E.V. Caldwell,  
Technical Manager,  
Berk Limited,  
Berk House, P.O. Box 1,  
Bl. 8 Baker Street,  
LONDON, W.1



Gibraltar and South Atlantic Department,  
**Foreign and Commonwealth Office**  
London SW1

352

9/14/12

Telephone 01-

A.J. Jones, Esq., O.B.E.,  
Colonial Secretary,  
PALMLAND ISLANDS.

Your reference

Our reference HGF 7/1

Date 27 November, 1970.

Dear John, 330

Your letter of 6 October about Alginate Industries.

353/4

2. I wrote to Pery and received the attached in reply last week. I have been in touch with West by telephone and he tells me that the next move is up to him; I think that following our conversation he appreciates that your Government would like things to move along a bit quicker and I have a feeling that he hopes soon to shift the initiative back to the Company.

*A.C.W. Lee*  
(A.C.W. Lee)

SLC File in 0004 9/14/12

353

# ALGINATE INDUSTRIES

L I M I T E D

120, GEORGE STREET, OBAN, ARGYLLSHIRE.

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



File u.  
 TELEPHONE:  
 OBAN 7056.  
 HEAD OFFICE  
 22 HENRIETTA STREET  
 LONDON, W.C.2

20/11/70

17th November, 1970.

A. C. W. Lee, Esq.,  
 Gibraltar and South Atlantic Dept.,  
 Foreign and Commonwealth Office,  
 London, S.W.1.

RECEIVED IN  
 HONG KONG  
 HGF 7/1

Dear Mr. Lee,

52

Thank you for your letter HGF 7/1 of 29th October. I apologise for not replying before but I had been waiting to get our latest Report from Port Stanley. The position to date is as follows:-

1. The position with regard to the Ministry of Defence (Navy) concerning the Camber Site remains as it was left when we had the Meeting; namely that the formal details of Rent and Lease will be left until negotiations are completed with the Falkland Island Government over the terms of the Kelp Concessions.
2. There has been little further move over the question of Kelp Concessions. As you know the Falkland Island Government has agreed in principle and placed the question of Royalties in the hands of the Evaluation Office. Mr. Stewart had a Meeting with Mr. West of the Evaluation Office on 5th October and explained to him the arrangements for paying Seaweed Concessions in the U.K. and Ireland. I understand that he wanted some time to go into this in detail and I imagine that Mr. Stewart and Mr. West will be meeting again sometime before the end of the year.
3. In sofar as the supply of oil is concerned, this is proving to be a difficult one. The Shell Oil Company and the Esso Petroleum Company can both provide Gas Oil to the specification as laid down by the M.O.D. (Navy) at a price of approx. 1/2d. per gallon f.o.b. Montevideo and Curacao respectively. The difficulty arises over chartering a tanker sufficiently small to be able to enter Stanley Harbour. The only offer I have received so far works out at approx. 5d. per gallon - making the delivered price 1/8d. I am still awaiting replies to various enquiries concerning the charter of Tankers and will write again if anything promising turns up.

Estados 15  
 2014/VI



/-

The Pilot Plant is now underway at Port Stanley and I hope that the information that we shall gain from our experiments will give us a clearer picture of exactly what we shall require at the Camber Site.

Mr. Merton and I will be meeting the new Governor in London next week and I hope that we shall be in a position to tie up some of the loose ends by the end of the year.

Yours sincerely,

*Richard Pery*

M.H.C. Pery.

5/11

This fibre, with vbs. 2 + 3, should be Bll in mid. February for W Lewis to see.

2

Para. 3, p. 353, to be extracted into f. 0014/VL (which should then be reprinted from these fibres)

*J.P. 11*

Bu 15.2.71.

# ALGINATE INDUSTRIES

LIMITED

Port Stanley - Falkland Islands - South Atlantic

17th January 1971

TEL. No. 220.

J A Jones Esq.  
Colonial Secretary.  
Falkland Islands.



*J/15/1*

Dear Mr Jones.

It may be recalled that subsequent to a request from our parent company in the UK we made a small consignment of air-dried *Lesonia Flavicans* (short-stemmed Tree Kelp) via M/V AEB in October for use in the manufacture of crude alginate as a trial batch to be used in the textile industry, which is a slight deviation from a well established procedure it appears, and could possibly have future interest for the Colony.

This is completely apart from the experimental program laid down for the Pilot Plant, which of course will be investigation of the processing of *Macrocystis*.

On Tuesday last, we received a telephone call from Girvan informing us that the two bales referred to above had been lost in transit, and so we were back where we started with the further disadvantage that months had been lost during which time; granted that a favourable report had been forthcoming as to the condition of the kelp upon arrival, considerable progress would have been made in collecting and drying whilst weather conditions were at their best for this purpose.

A further quantity was gathered with the utmost haste in an endeavour to have it dried and baled ready to ship in the present voyage of the same vessel. With the kind co-operation of Mr A Boggie, the kelp is at present drying in the FIC skin drying shed at the Butchery.

In our haste to get the desired quantity in so short a time, I am afraid that I neglected to inform the Secretariat for which I apologise, and trust that these lines will at least partly right my unfortunate omission.

About 1.7 tons (wet weight), was taken from Eliza Cove, on a shore frontage of about 50 yards.

We are pleased to hear through Miss Chapman that you are now better, and were sorry that you were indisposed at the end of the year when we had called to arrange a visit to our modest plant.

Your sincerely,

E F Gooch.

*reply 356*

*1/2*  
~~Letter 7 in book~~  
Fair attached reply f.m.s.

*J/19/1*

356

19th January 1971.

7  
16  
355  
Thank you for your letter of the  
17th of January.

It is accepted that the circumstances to which you refer in your first five paragraphs were exceptional, and I am sure we can rely on you, at all normal times, to obtain permission before harvesting these special consignments of kelp.

My indisposition did, to my chagrin, prevent me from paying a visit to your pilot plant at the end of the year, but I shall be accompanying His Excellency the Governor on his visit to you tomorrow, so it amounts in the end only to a few weeks' postponement.

(J. A. Jones).

Mr. D. F. Gooch,  
Alginate Industries Ltd.,  
Port Stanley,  
Falkland Islands.

AC.

By: 15. 2. 71.

(354)

Y.E.

will have gathered a good deal of the background to the Alginate Industries Limited's colony-based project before you arrived here. In very general terms the company is still negotiating a lease of part of the Camber site from the M.O.D. for their main operations in a year or two's time: contemporaneously the Valuation Division of Inland Revenue are negotiating on our behalf, under Technical Assistance arrangements, the question of Royalties.

2. You may wish to see from p.352

3. It would be useful if we could arrange, on a suitable occasion, to visit the Camber site with Mr. Gooch and Mr. Sloggie (as you may know, the F.I.C. are the Admiralty Agents here and so are involved in A.I.L.'s negotiations on the Camber site) to look at the position and A.I.L.'s possible needs on the ground.

(J. A. Jones)  
Colonial Secretary  
/4.2.71

*to Mr*

*you have 2. I agree.*

*B/n 15 2/2*

*[Signature]*

*Bn 15/2*

*Y.E. Bn as asked. 1/16/2*

*to S, would you please get in touch on*

*my stay with me*

*[Signature] 1/16/2*

4.8. 10/15/Good, 6.17/12

The visit to the Camber will be made by the "Lisaly" on Tuesday next, 23/2. We need to be at the FIC jetty at 0930 & I think we need to allocate the whole morning to the visit. Mr Gook, Alginate Industries, & Mr Stoggin, representing FIC in its capacity as Admiralty Agents, will accompany us.

J  
17/12

BR 21/2

BR 1/5

359

# Christ Church

Rua Real Grandeza, 99 - ZC-02  
Botafogo, Rio de Janeiro  
Est. da Guanabara, Brasil

Phones:  
Office 26-2978  
Rectory 26-9488  
Rector:  
Rev. Canon Eric C. Wilcockson

(Anglican - Episcopal)  
Serving the English-speaking people in  
Rio de Janeiro



*6/13*  
*10/13*

February 19th. 1971.

Dear Mr Lewis,

The enclosed consists of up-to-date and confidential information concerning the use of Sodium Alginate in Brasil. The quantity required increases very rapidly every year. I imagine that someone in Stanley may very well be interested.

Thank you for your kind cable, and I hope that you have settled down very happily in the Falklands. I thought it a wonderful place and very unique, and I hope that by now you will have someone to look after the Cathedral.

with all good wishes,

yours sincerely,

*Eric C. Wilcockson*

*5/c*

*P.L. on 0004* *11/13*

*NOTE* Attached passed to C.M., P.L., for copying + return.

*Bu* *15/3* *17/3*

*11/13*

Year  
ANO-  
DATE 1970 Kilos

Importer - Producer

PRODUTO: <sup>3/2</sup> Sodium Alginate  
Alginato de sodio / Part

ITEM TARIFA No- 38.19  
FOB UNIT

DATA Emissão	KGS	IMPORTADOR FABRICANTE	PRODUTO Product	Origem Origin	Porto destino	FOB UNITARIO	Dep + Desc.	CIF TOTAL	Ob.	
		Imperial			São Paulo	us\$ / kg				
6	4000	Alginato Ind.	manu. Est. R.S.	U.K.	SP	4,63		5916,00		
6	1000	Somapi Protolan	Laminas H	novorpa	Rio de Janeiro RJ	us\$ / 1000 kg 1,640,00		}		
6	50	"	Protolan 20	"	"	1,240,00			1869,00	
6	500	Somapi Protolan e Fagertum	Protolan Ule EFN	"	"	us\$ / 1000 kg 1,140,00			640,00	
		Progresso Ind. do Brasil				us\$ / 1000 kg				
6	7000	Alginato Ind.	manu. Est. R.S.	U.K.	"	1,626,80		11.960,00		
		Equine			Bahia	us\$ / 1000				
6	500	Alginato Ind.	manu. Est. B	"	Salvador	4,630,00		2.448,00		
		Somapi		novorpa		us\$ / 1000 kg				
6	600	Protolan e Fagertum	Protolan JCH/S		RJ	1,250,00		810,00		
		Proquifor	ácido alginico			us\$ / 1000				
6	50	S/A Farmaceutici	us\$	Viaçã	RJ	5,00		300,00		
		7 Bahia								
		cervejaria Astra			Ceará	us\$ / kg				
5	500	kelco company	Industrial	us\$	Fortaleza	4,71		2.643,87		

359 a

ANO- 1970

PRODUTO: Alginato de sodio

ITEM TARIFA No- 38.19.0.

DATA Emissão	KGS	IMPORTADOR FABRICANTE	PRODUTO	Origem	Porto destino	FOB UNITÁRIO	Dep + Desc.	CIF TOTAL	Obs.
		Landmann & Co				US\$ 1,29			
6	500	Kelco Company	Kelcolact 00	USA	SP	4,71		2506,83	
6	90,71	Johnson & Johnson Kelco Company	Kelgin H.V.	USA	"	0,95		245,50	
5	2000	Quimimasa Photone & Fagelton	Laminex H	Norway	"	US\$ 1000 kg		1780,00	
6	3000	Imperial Alginato Ind.	manutec R5	U.K.	"	US\$ 1000 kg		4437,00	
7	2000	Imperial Alginato Ind.	" "	U.K.	"	US\$ 1 kg		2958,00	
7	2000	Imperial Alginato Ind.	" "	U.K.	"	US\$ 1 kg 5		2958,00	
7	1200	Magnus Alginato Ind.	Alginato P. 879	U.K.	BJ	US\$ 1000 kg 5		1320,00	
7	250	Pfizer Alginato Ind.	H5 / 40 WSP	"	SP	US\$ 1 kg		752,50	
7	250	Imperial Alginato Ind.	manutec F	"	"	US\$ 1000 kg		411,74	
7	453,60	M. S. Wanda Villela Kelco Co.	Kelmar	USA	BJ	US\$ 1 kg		1417,00	

3596

ANO- 1970

PRODUTO: Alginato de sodio.

ITEM TARIFA No- 38-19-

DATA Emissão	KGS	IMPORTADOR FABRICANTE	PRODUTO	Origem	Porto destino	FOB UNITARIO	Dep + Desc.	Clf TOTAL	OBS
7	100	Imperial Alginato Ind.	manuiter KN	U.S.A	SP	US\$ 14,95			
"	250	"	manuiter F	"	"	1,99	}		
"	5000	"	manuiter R.5	"	"	1,63		8021,02	
"	449	Darex Kelco Company	Superloid	U.S.A	"	1,11		1355,00	
"	500	Dandmann Kelco Company	Kelcoloid DO	U.S.A	"	US\$ 4,71		2506,83	
"	5025	Kibon Protam & Fagelium	Protamal 504/5	U.S.A	"	US\$ 1000 49,5		6783,75	
8	454	S.S. White Cellulose Chemicals S.A. Kelco Company	Improved Kel-man	U.S.A	RJ	US\$ 14,95			
8	499	DAREX Kelco Company	Alginato de Amônia Superloid	U.S.A	SP	US\$ 14,95		1355,00	
8	499	Darex Kelco Company	"	"	"	US\$ 14,95		1355,00	

359 e

ANO-

1970

PRODUTO:

alginato de sódio

ITEM TARIFA No-

38.19.0

DATA Emissão	KGS	IMPORTADOR FABRICANTE	PRODUTO	Origem	Porto destino	FOB UNITARIO	Dep + Desc.	CIF TOTAL	OBS
8	2000	Empireal Kelco Co.	kelcoloid 00	USA	Pará	US\$ 1 kg 4,689		4919,00	
10	2000	Imperial Alginate Ind.	manuete RS	U.K.	SP	US\$ 1 kg,5 2,63		2.958,00	
9	300	Imperial Alginate	manuete 55/44	U.K.	"	US\$ 1 kg,5 2,46			
9	300	"	alginate 45/40	"	"	2,76		1428,00	
8	1000	Somapi Proton e Gagerlun	manuete H	none	RJ	US\$ /600 1.640,00		1780,00	
10	175	Química Raparcho Hermann	coloidal 15	alem	"	DM / kg 11,75		2406,50	
8	100	P. Roche S.A. alginate Ind.	manuete 55/44	Gy.K. Brita- -na	"	US\$ 2,46	FOB 246,00	259,00	
9	500	Landmann Kelco Company	kelcoloid 00	USA	SP	US\$ 4,71	FOB 2355,00	2506,83	
9	200	Imperial Alginate Ind.	manuete KN	U.K.	SP	US\$ / kg 1,96		355,30	
9	4500	Imperial Alginate Ind.	manuete RS	U.K.	SP	US\$ / kg 1,63		6655,50	

359 300 8

ANO- 1970

PRODUTO: Alginato de sódio

ITEM TARIFA No- 38.19.00

DATA Emissão	KGS	IMPORTADOR FABRICANTE	PRODUTO	Origem	Porto destino	FOB UNITARIO	Dep + Desc.	CIF TOTAL	OBS
9	520	Imperial Alginate Ind.	manucler KN	U.K	SP	US\$1 kg 1,96		}	
9	4000	"	" RS	RS	"	1,63			
"	100	"	Alginate Acid	U.K	"	6.573,20			7.037,25
9	5025	Kison Protom e Fa. Gerium	Protomol 70415	norme	"	US\$1000 kg 1.250,00		6.783,75	
10	560	usa farma Alginate Ind.	manuclol 55/4H	U.K	"	US\$1 kg 2,39		7255,00	
10	300	Johnson e Johnson Alginate Ind.	Alginate 45-X0	U.K	"	US\$1000 kg 3.350,00		1074,00	
10	226,8	Albott kelco	ulcoloid HUF	USA	"	US\$1 kg 3,90		1042,50	
9	499	Darex kelco company	Alginate de Amônia Superoid	USA	"	US\$1 kg 1,11		1355,00	
			- x x -						

359 3012

365

18th March 1971

Dear Canon,

Thank you for your letter of the 19th February sending me the information concerning the use of Sodium Alginates in Brazil. The figures were certainly interesting and I have let Mr. Gooch, the local Manager of Alginates Limited, know of this upward trend. However, the world wide market for Alginates is a reasonably limited one and I can only hope that the London office of Alginate Industries Limited keeps a very close eye on the market developments all over the world.

I am glad that you enjoyed your stay on the Islands and, now that I have settled down, I am looking forward to a happy and I hope constructive tour of duty. The Reverend P. Hallyer and his wife are scheduled to arrive on the 26th and it will do a great deal of good to have a Chaplain again at the Cathedral.

Yours sincerely,

(E. G. Lewis)

Rev. Canon E. C. Wilcockson,  
Christ Church,  
Rua Real Grandeza, 99 - ZC - 02,  
Botafogo, Rio de Janeiro,  
Est, da Guanabara,  
BRASIL

Ru 1/5

F.I.G. Ref: 0004  
F.C.O. Ref: HGF 7/1

3rd May 1971

7  
6

Alpine Industries Ltd

Tony Lee wrote to me on the 27th November last in terms of your letter under reference. Since then we have heard nothing further and it would be helpful for me to have more up-to-date information on the progress being made, particularly with reference to the question of royalties. If you could let me have something by return it would be useful.

J. A. Jones

G. F. Kinnear, Esq., C.B.E.  
Foreign and Commonwealth Office (S.A. & I.O. Dept.),  
London, S.W.1.

JB

By 16.6.71  
(maie)

0004/10

# ALGINATE INDUSTRIES

367

LIMITED

BOX 214, PORT STANLEY, FALKLAND ISLANDS,  
SOUTH ATLANTIC

TELEPHONE 220

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

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



7th May 1971

J A Jones Esq.  
Colonial Secretary.  
Falkland Isles.

Dear Mr Jones.

Please find enclosed rough sketch which will perhaps help to identify the kelp which grows on the open foreshores here which as I explained today had been misnamed some years back when Mr Burgoyne was here on behalf of the British & American Kelp Co. I think that it was in the year 1947 during a survey carried out by this company which was as you know a subsidiary of Alginat Industries Ltd.

There was always some doubt about the veracity of this identity and in all the reports and analysis referring to Lesonia flavicans, and Lesonia nigrescens the words 'alleged species' preceded the name given to this kelp. With view to positively identifying this type of kelp, some fresh samples were recently submitted to Sr Vicente Navarrete of the Chilean firm Algina Soc Ltda. in Valparaiso, with plant in Santiago de Chile. This company are suppliers of dried kelp meal to Alginat Industries in Scotland where sodium alginate is extracted and commercialised from it. The type which is imported is known as Durvillea and its qualities are well-known.

Sr Navarrete has informed us that what has always been thought to most likely be Lesonia flavicans is in fact Durvillea, which comes in two different growth forms. One being narrow and having a large cellular construction and is the Utilis variety, and the other is the broad-leaved Antartica. Both these had before been indiscriminately referred to as Lesonia flavicans. It is suggested that the other type of tree kelp is most likely Lesonia ~~nigrescens~~ which is in accordance with our belief all along, although exactly which type is not known. As this is of little commercial value, it is unlikely that we will be establishing its identity for sure. I forgot to include the detail that the Durvillea Antartica has a much finer cell texture in its construction, and was the deciding factor in enabling its identity to be established.

Trusting that these details may be of some use to you.

Yours sincerely

  
D F Gooch.



F R in 0004

JFS/5

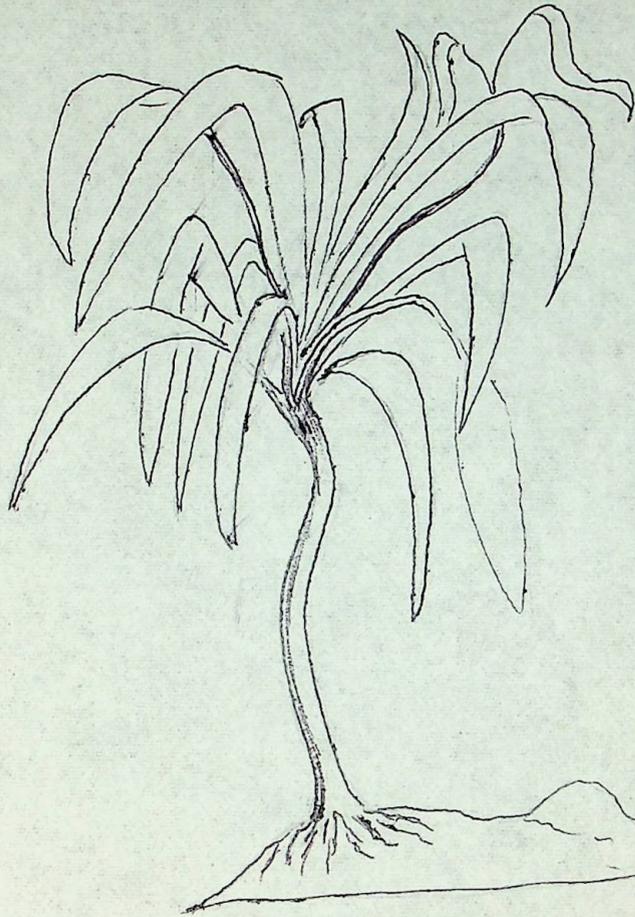
# ALGINATE INDUSTRIES

LIMITED

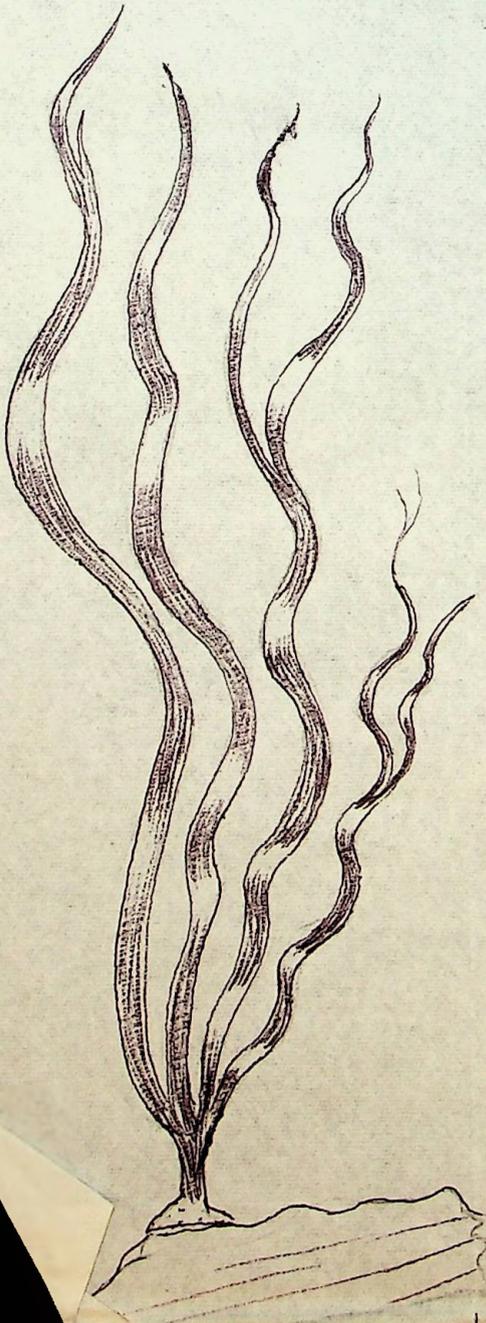
Port Stanley - Falkland Islands - South Atlantic

368

TEL. No. 220.



ALLEGED *LESONIA NEGRENSE*



*DURVILLEA ANTA*

0004/

DECODE.

3TT  
369

TELEGRAM SENT.

From SECRETARY OF STATE to GOVERNOR

Despatched: 9.6.71 Time: 1842 Received: 9.6.71 Time:

No 146.  
Unclassified 091555Z  
For Jones.  
Alginate Industries.

MOD will shortly be meeting with Alginate Industries to negotiate lease of admiralty facilities at Stanley you were present at meeting in London on 22nd June 1970 when this was discussed.

2. As MOD have no lands representative at Stanley they ask for your advice on rent they might reasonably expect to obtain for land and facilities.

3. Grateful for reply by telegram

DOUGLAS-HOME

PL: JE

DECODE.

TELEGRAM SENT.

From SECRETARY OF STATE to GOVERNOR

Despatched: 16.6.71 Time: 1521 Received: 16.6.71 Time:

IMMEDIATE.

UNCLASSIFIED TO IMMEDIATE FALKLAND ISLANDS.

TELNO 154 OF 16/6.

My telegram 146 of 9th June Alginat Industries grateful  
for immediate reply as MOD have meeting with Alginates on 18th June.

DOUGLAS-HOME

PL: JE

DECODE.

TELEGRAM SENT.

From SECRETARY OF STATE to GOVERNOR

Despatched: 17.6.71

Time: 1300

Received:

Time:

ETATPRICRITE PRODROME LONDON SW1

IMMEDIATE

No. 208

17 June 1971

Addressed FCO Telno 208 of 17 June. Your telnos 146, 154. Alginate Industries.

1. Jones has been ill for the past few days prior to leaving with the delegation for B.A. and my attention was not drawn to tels under reference. I was not present at the meeting and therefore can only comment in general terms.

2. As I understand it the Company is negotiating for use of wharf and facilities including use of oil pipe line complex, the use of oil storage tanks and the use of the whole or half of one of the main storage sheds. Crown land in the town rents for £4 per acre per annum but obviously this is no guide in this particular case. For the small premises A.I.L. are at present renting from F.I.C. I understand the rent is in excess of £160 per annum.

3. In other words this looks like a bit of horse trading and I would suggest as in my immediately following telegram.

37517  
3714

[IFT  
held  
at G.H.]

~~P 5111~~

372

*A. Ch*  
LEWIS

Bu 30.6.71 (mail)

37.

GOVERNMENT TELEGRAPH SERVICE

FALKLAND ISLANDS

SENT

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

Number	Office of Origin	Words	Handed In at	Date

To ETATPRIORITE PRODROME LONDONSW1 A/c H.O.

IMMEDIATE

No. 209

17 June 1971

CONFIDENTIAL

IMMEDIATE

ADDRESSED TO FCO

MIPT <sup>0371</sup> SUGGEST OPENING BID £1,000

LEWIS

Time



*Handwritten initials*

Foreign and Commonwealth Office  
London S.W.1

0004112  
375  
373

HGF 7/3

RESTRICTED

14 May 1971



J A Jones Esq OBE  
Colonial Secretary  
Stanley  
Falkland Islands

*Dear Jones*

ALGINATE INDUSTRIES LIMITED

1. Please refer to your letter of 18 March 1970 to Mr. West of the Inland Revenue Valuation Office in which you gave him a free hand in negotiating with Alginate Industries Limited in regard to royalty payment and the way in which it should be calculated subject to your final approval of any agreement reached.

2. Owing to the absence of the Secretary of Alginate Industries Limited due to ill health, these negotiations have taken longer than was anticipated but we have now received a letter dated 13 May from Mr. West giving details of provisional agreement which has been reached with Alginate and I enclose a copy of his letter.

3. A slight change has been made by Mr. West in that he has combined licence fee and royalty which not only simplifies the method of payment but is in line with the method usually adopted in such agreements and I hope that you will be able to agree to this.

4. The basis provisionally agreed with Alginate is a royalty of £1.90 per metric ton of dried milled kelp plus an additional royalty of 20p. whenever production exceeds 8,000 metric tons per annum and, while the payment at low levels of production will be the same as originally offered by Alginate, Mr. West has succeeded in obtaining agreement for a higher figure when production increases.

5. Alginate Industries Limited are sending me a copy of draft agreement for consideration which I will forward to you immediately on receipt. I will arrange to telegraph to you any comments on the agreement which our advisers may have and, if you agree with Mr. West's proposal, I should be grateful if you would telegraph as soon as possible since Alginate Industries now wish to finalise negotiations at an early date. I am sending a copy of this letter to Sir Hubert Flaxman for his information and I will forward a copy of Alginate's draft agreement to him also on receipt.

*NA enclosed,  
JAJ*

*inde, 16/6/71*

*No shall w/b be  
marked.*

RESTRICTED, 1 -

374  
6



RESTRICTED

6. In addition to the processing of *macrocystis pyrifera*, Alginate Industries would also like to gather a small amount of *lessonia* kelp and Mr. West has provisionally agreed with them that a royalty of £1.90 per metric ton of *lessonia* should be payable without any provision for a minimum payment or for a minimum quantity on which royalty would start to be paid. I should be grateful if you would also let me know whether you are agreeable to this proposal.

*Yours ever*

*George Kinnear*

G F Kinnear  
Atlantic & Indian Ocean Dept.

*Yours ever*  
*George Kinnear*

G F Kinnear  
Atlantic & Indian Ocean Dept.

RESTRICTED

RESTRICTED



77

3757

Foreign and Commonwealth Office  
London S.W.1

RESTRICTED

HGF 7/3

17 May 1971



J A Jones Esq CBE  
Colonial Secretary  
Stanley  
Falkland Islands

*Dear Jones,*

ALGINATE INDUSTRIES LIMITED

1. Further to my letter of 14 May, I have now received from Alginat Industries Limited a revised "heads of agreement" which I enclose together with a copy of their letter to me of 14 May.
2. You will see that they have added a considerable number of clauses in this revision and I look forward to receiving your comments on them.

*Yours ever*

*George Kinnear.*

G F Kinnear  
Atlantic & Indian Ocean Dept.

RESTRICTED



3779

"no Government could contemplate giving such a guarantee and so fettering its power to tax and the powers of its successors."

We have carefully considered this point and we respectfully submit that it is not a valid one, and that many instances of Governments committing themselves in a similar manner can be recited. What is, of course, true is that in the event of a Government failing to honour such a clause in an Agreement, means of redress may be hard to come by.

*Worthy to this  
Subsequent Agreement.*

The remaining clauses we have presumed to be acceptable.

In view of the fact that this matter has now been held up for a very considerable time during which my Company has shown exceptional good faith in going ahead and establishing a pilot plant at Port Stanley, we would be most obliged if you would use your good offices to obtain formal acceptance of these Heads of Agreement with the minimum of delay.

*The position is whether  
has been to be  
settled*

We would then much appreciate your advice as to how to proceed with the instruction of solicitors with a view to preparing the formal agreement. In the meantime for your convenience we are enclosing copies of the relevant papers referred to.

I understand that you will be sending a copy of the revised Heads of Agreement to the Colonial Secretary with the Valuation you have now received from the Inland Revenue; and that the sailing dates are such that they should soon arrive.

Yours sincerely,

R.R. Merton,  
Managing Director.

*Rev Ath has a letter of  
history: so there is evidence of  
good faith on both sides, not  
in one side only.*

378 10

Enclosures:

✓ 1. Letter from M.Pery to the Governor, dated 3rd July, 1969,  
with Draft Heads of Agreement.

*Incomplete*

2. Letter from the Foreign Office to AIL, dated 6th April,  
1970,  
with draft Heads of Agreement.

3. Letter from the Chief Valuer to AIL, dated 6th May, 1971.

Throughout the conditional tense is used. This  
is incorrect as what is contemplated is an Agreement,  
not a statement of intention.

379 11  
J  
1/2/7

FALKLAND ISLANDS

DRAFT HEADS OF AGREEMENT

- ✓ 1. Alginate Industries welcome the co-operation and assistance of the Falkland Islands Government in their venture to provide a kelp supply base at Port Stanley.
  
- ✓ 2. Until the Company is able fully to exploit all the waters of the Colony it is accepted that an initial exclusive concession for fifty years should be limited to the coastline of the East Falkland and adjoining Islands. i.e. to an area South of a line between points (A) 51 degrees 32 minutes South 57 degrees 41 minutes West and (B) 52 degrees 06 minutes South 60 degrees 11 minutes West.  
*as vol 3, p 244, revised by para 2, p 258. in fin should be inserted?*
  
3. Should the Company eventually wish to apply for a larger exclusive concession, the Falkland Islands Government would be prepared to negotiate. In the event of any other operator applying for concessions in the uncommitted area, with a view to harvesting Kelp for export on a commercial scale, the Company would be given the opportunity of first refusal.  
*this reads 'person' at vol 3, p 244*
  
- ✓ 4. The Company <sup>will</sup> take into account the fact that, in certain instances, kelp beds are an aid to navigation and play an important part in the preservation of wild life.  
*vol 3, p 244, para 3*
  
- ✓ 5. It is understood by the Company that kelp could be harvested by any individual, or group of individuals, resident in the Falkland Islands, for use only within the Islands.  
*vol 3, p 244, para 4*
  
- ✓ 6. The Company <sup>will</sup> (would be required to) carry on all its harvesting operations in a safe, orderly, skilful, efficient and workmanlike manner and <sup>will</sup> not (to) cause <sup>or</sup> danger of damage to persons lawfully using or being on or in the foreshore or the territorial waters <sup>of</sup> the Colony.  
*vol 3, p 245, para 8*
  
7. The Company <sup>will</sup> (would be required to) take due and proper precautions for the safety of all persons employed by it in harvesting operations.  
*vol 3, p 245, para 9*

8. The Falkland Islands Government would grant the Company an exclusive Licence, at a nominal annual fee, to collect kelp <sup>will</sup> or any species within the concession areas during the 50 year term of the Agreement. The Falkland Islands Government would retain the right to reconsider the exclusivity of the Licence should the Company fail to produce the annual quantities of dried milled kelp specified below:

?  
of  
See para 2,  
p. 376; also  
p. 3, p. 244, para. 1  
p. 245 para. 6.

An average of 4,000 tons a year over two years as from the end of three years after the Licence is first granted.

An average of 8,000 tons a year over two years as from the end of ten years after the Licence is first granted.

9. The proposed licence fee of £1,000 having at the recommendation of the Valuation Department of the Inland Revenue been merged with the royalty payments proposed in the previous draft Heads of Agreement, the Company offers to pay to the Falkland Islands Government the following royalties upon its production of dried milled kelp at Port Stanley:

See pp. 390-1

(i) A royalty to be paid by the Company to the Falkland Islands Government of £1.90 for every metric ton of dried milled kelp subject to a minimum annual payment of £2,500.

(ii) The annual payment to be made not later than February 1st in each year and to be based on the amount of dried milled kelp produced in the Falklands during the 12 months ending on December 31st the previous year.

(iii) The royalty payment to commence in the year following that in which more than 1,000 metric tons of dried milled kelp are produced, or on February 1st 1975, whichever is the earlier.

(iv) Whenever the annual production of dried milled kelp exceeds 8,000 metric tons an additional royalty of 20p to be paid for every metric ton in excess of 8,000.

(v) The royalty of £1.90 and the additional royalty of 20p to be reviewed every 5 years i.e. for every period of 5 years commencing on the 6th, 11th and 16th year and so on. The new royalties will bear the same relation to the initial royalties as the average Wholesale Price Index numbers of output (Chemicals and Allied Industries - total sales) issued by the Statistics Division of the Department of Trade and Industry for the year ending on June 30th prior to the review date bear to similar figures for the year ending on 30th June prior to the date the first royalty becomes payable.

(vi)/....

See p 391  
(This is new & leads  
FTI agree and)

9. (vi) In the event of the wholesale price index numbers ceasing to be issued or being issued in a different form and in the event further of a dispute arising as to what the index numbers for review would be, the question of what the index numbers would be if they had continued to be issued to be submitted for arbitration by a single arbitrator appointed by the President for the time being of the Institute of Arbitrators.



10. In advance of the main Agreement, the Company wishes to collect, dry and mill relatively small quantities of lessonia seaweed. The Company offers a royalty of £1.90 on each metric ton of dried milled lessonia produced, payable on 1st February of each year, without minimum payment or minimum quantity.

See pp 392 + 394-5:  
for Commission of FTI  
CIS advice.

11. Profits subject to Falkland Islands taxation would be expressed in terms of a percentage of the annual production costs, including overheads and plant depreciation, as from the date when the licence became payable. These costs would not however, include any write-off of expenditure not represented by fixed assets (e.g. consultants fees, costs of charting weed beds etc.), incurred in the initial stages and originally charged to a development or similar account.

SPE to comment.  
(see para 10, p. 183,  
187.3)

12. In respect of power requirements, every effort would be made to provide for the pilot plant up to a loading of 100 kW, although it would be understood that the load may have to be restricted during peak periods.

(see v. 3, p. 183,  
para. 15. Work  
is identical)

13. It is understood that the Company would be responsible for providing their own water supply at the unit stage, and subject to any previous water extraction grants, would be allowed the use of water from the Murrell River, or any other suitable supply in the area, free of tariff. Likewise, it is agreed to allow a supply pipe from the source to the site of the factory to be laid on the surface of the Camp provided that adequate crossing places, to be determined by agreement, were provided for. No rental would be charged for the land taken up by the supply pipe.

(see v. 3, p. 183,  
para. 16)

14. Equality of treatment with other commercial undertakings would be guaranteed in respect of port dues and harbour rights.

See v. 3  
para. 16 & 17

15. The Falkland Islands Government shall not during the 50 year term of this Agreement levy any new tax or impost, such as a fuel tax or export duty, which might have an adverse or discriminatory effect upon the Company's operations in the Falkland Islands.

382/4

See R3, p. 154,  
para. 18

16. The Company would appreciate all possible support from the Falkland Islands Government in its present negotiations with the Ministry of Defence and the Navy Department in connection with leasing the Camber Site and oil storage facilities, this site and these facilities being essential to the Company's proposed operations.

17. These present draft Heads of Agreement, dated 14th May 1971, replace and cancel the Heads of Agreement submitted to Sir Cosmo Haskard by Mr. R.R.Merton on August 7th 1969, and referred to in part in the Annexure to Mr. A.C.W.Lee's letter to Mr. R.R.Merton dated April 6th 1970.

The Company looks forward to the formal acceptance of these Heads of Agreement by the Falkland Islands Government, so that the Agreement incorporating these terms and conditions may be signed at an early date.

RRM/mba  
14.5.71

383  
12  
25

From: 120 George Street, Oban, Argyll, Scotland.

3rd July, 1969.

Sir Cosmo Hookard, K.C.M.G., M.B.E.,  
Government House,  
Falkland Islands.

Dear Sir Cosmo,

I am taking the liberty of sending direct to you the attached reply to Mr. Thompson's letter of 1st May.

Mr. Merton has been in touch with the Colony's Tax Advisor in London, and it is felt that the figure of 10% profit on costs is likely to be acceptable to the Board of Inland Revenue. We have a precedent for this in our dealings with the Irish Government over a seaweed supply factory in Connemara. Provided that we receive double taxation relief (and that your taxation does not escalate!) we can see no reason for scaling down the level of profit in the early stages.

As soon as we start full scale operations we shall work up as quickly as possible - probably within one year - to produce at a rate of 4,000 tons dried milled Maoro per year. Thereafter we shall probably increase production by multiples of 4,000 tons.

The attached calculations may be of assistance as an indication of the possible revenue to the Colony from our operations. The costs of production are our most recent estimates, and I should be grateful if you would treat these particular figures as completely confidential, since we obviously do not wish them to be known to our competitors. Exactly when we shall achieve the various levels of production is in the lap of the Gods and the Chancellor, but we obviously hope to expand as quickly as possible.

Yours sincerely,

Michael Perry.

p.s. This was dictated over the telephone on Tuesday, 1st July.

COPY ERM ✓  
MHC P 390  
22



Valuation Office Inland Revenue

CHIEF VALUER

New Court Carey Street London WC2A 2JE

Telephone 01-242 2833 ext 234

A H Stewart Esq  
Secretary  
Alginat Industries Ltd  
22 Henrietta Street  
London, WC 2

Your reference

AHS/BC

Our reference

CV/OD/1

Date

6 May 1971

Without prejudice

Dear Mr Stewart

FALKLAND ISLANDS SEAWEED

As promised I am writing to set out the provisions concerning royalties I am prepared to recommend for the acceptance of the Falkland Islands Government under paragraph 7 of the Heads of Agreement which accompanied the letter dated 6 April 1970 from Mr A C W Lee of the Foreign and Commonwealth Office to Mr Merton. It is to be recommended however that the licensee referred to in paragraph 5 of the Heads of Agreement should merge with the royalty as provided below.

1. A royalty to be paid by your Company to the Falkland Islands Government of £1.90 for every metric ton of dried milled kelp subject to a minimum annual payment of £2,500.
2. The annual payment to be made not later than 1 February in each year and to be based on the amount of dried milled kelp produced in the Falklands during the 12 months ending on 31 December the previous year.
3. The royalty payment to commence in the year following that in which more than 1,000 metric tons of dried milled kelp are produced, or on 1 February 1975 whichever is the earlier.
4. Whenever the annual production of dried milled kelp exceeds 8,000 metric tons an additional royalty of 20p to be paid for every metric ton in excess of 8,000.
5. The royalty of £1.90 and the additional royalty of 20p to be reviewed every 5 years ie for every period of 5 years commencing on the 6th, 11th and 16th years and so on. The new royalties will bear the same relation to the initial royalties as the average Wholesale Price Index numbers of output (Chemicals and Allied Industries - total sales) issued by the Statistics Division of the Department of Trade and Industry for the year ending on 30 June prior to the review date bear to similar figures for the year ending on 30 June prior to the date the first royalty becomes payable.
6. In the event of the wholesale price index numbers ceasing to be issued or being issued in a different form and in the event further of a dispute arising as to what the index numbers for review would be, the question of what the index numbers would be if they had continued to be issued to be submitted for

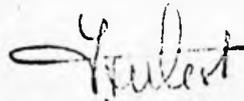
391  
23

arbitration by a single arbitrator appointed by the President for the time being of the Institute of Arbitrators.

In advance of the main agreement referred to above I understand that your Company wishes to gather a relatively small amount of lessonia. This matter will have to be considered by the Falkland Islands Government. If they agree in principle I am prepared to recommend that a royalty of £1.90 should be paid for every metric ton of dried milled kelp produced payable on 1 February in each year, there being no minimum payment nor minimum quantity on which a royalty is payable.

If you will be good enough to confirm that the above represents what we have verbally agreed I will then send my report and recommendations to the Foreign and Commonwealth Office.

Yours sincerely



F J West  
for Chief Valuer  
Division 2



Foreign and Commonwealth Office  
London S.W.1

HGF 7/3

J A Jones Esq CBE  
Colonial Secretary  
Stanley  
FALKLAND ISLANDS



23 June 1971

*Dear John,*

ALGINATE INDUSTRIES LIMITED

1. Please refer to your letter 0004/IV of 14 May about the type of kelp known as Durvillea.
2. I enclose copy of letter from the Natural History Museum confirming that Durvillea is a separate genus and in view of this you will doubtless wish to amend your Control of Kelp Ordinance, 1970.
3. At the meeting with Alginate Industries in the Ministry of Defence on 18 June Mr Iery of Alginate Industries mentioned that, although they do not intend to start harvesting Macrocystis until 1975, they hope to commence collecting Lessonia and Durvillea in 1972 on the basis of 5 thousand wet tons equivalent to about 1 thousand dry tons per annum.
4. I am grateful for the suggestion in your telegrams 208 and 209 of a rent of 21 thousand per annum for the use of the Admiralty depot by Alginates but, as at the meeting Alginates were unable to specify their exact requirements of land or buildings, there was no point in discussing the rent payable and this has been deferred until Alginates can put up a firm proposal.
5. Since the <sup>Comments</sup> ~~minutes~~ of our advisors which I promised in my letter to you of 14 May have taken rather long to be received, the gist of this was telegraphed in our telegram No 115 of 16 June and I hope they will be of assistance to you. I now enclose copy of letter dated 16 June from OTTO commenting on the proposal that Alginates should be assessed for tax on the basis of 10% of their overseas costs. While OTTO feel that this is not a very satisfactory basis for assessment, they do not suggest a better one and our other advisors have not been able to produce an improved method of assessment either.
6. I look forward to receiving your views on the revised Heads of agreement from Alginates which I sent to you with my letter of 17 May.

*Yours ever*  
*George Kinnear*

G F Kinnear  
Atlantic & Indian Ocean  
Dept

ENC (2)

393  
25



BRITISH MUSEUM (NATURAL HISTORY)

DEPARTMENT OF BOTANY

Cromwell Road, LONDON S.W.7 5BD

Telegrams: *Nathismus London*

Telephone: 01-589 6323

Our reference: JHP/BEC  
Your reference: HGF 7/3

22 June 1971

Mr G H Kinnear  
Atlantic & Indian Ocean Department  
Foreign and Commonwealth Office  
London S W 1

Dear Kinnear

Thank you for your letter of 17th June regarding the matter of "kelp" around the shores of the Falkland Islands.

Without wishing to seem pedantic, I feel that I should indicate the names of plant genera are usually spelt with a capital letter, rather than a small letter; since the matter on which you are concerned is a legal one, I thought perhaps you should know this.

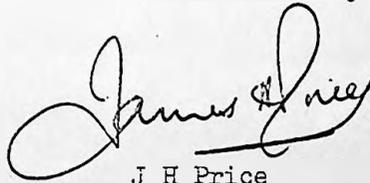
In fact there are three separate genera known respectively as Macrocystis, Lessonia and Durvillea, all being present around the shores of the Falklands. The name pyrifera, which you use in conjunction with Macrocystis, is in fact the specific epithet, so that the full name of this plant is Macrocystis pyrifera, the genus itself being simply Macrocystis.

Again since legalities seem to be involved, it may be advisable for you to have information on authors who first published the genera. These are as follows:-

- Lessonia . . . Bory
- Durvillea. . . Bory
- Macrocystis. . C. Agardh

I hope that this information gives the answers that you need, but if any further data are required please let me know.

Yours sincerely

  
J H Price

Overseas Telegraphic Address:  
COLINTAX, LONDON

TELEPHONE:  
NE 0300 & 0309

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



39426  
THE OVERSEAS TERRITORIES  
INCOME TAX OFFICE,  
26, GROSVENOR GARDENS,  
LONDON, ~~SW1A~~ SW1W ODX

Reference..... FL JEC/jc

Your Reference.....

16th June 1971

*Mr Kincaid  
in spm*

*17/6*

M. D. Allen Esq.,  
Foreign and Commonwealth Office,  
London,  
S.W.1.

Dear Allen,

The Falkland Islands  
Alginate Industries Ltd.

I tried unsuccessfully to telephone you yesterday and then decided that I had better put the considerations relating to this company in a letter since they turn out to be rather complicated.

1. The Double Taxation Agreement between the U.K. and the Falkland Islands restricts the Income Tax payable to the Falkland Islands Government to tax on the profits attributable to the company's establishment in the islands. This means that the islands cannot tax any part of the company's profit which arises after the export of their product from the islands. In many similar cases (e.g. oil producers) this is relatively simple because we often have two companies: one of them gathering the raw product and subjecting it to initial processing overseas, and the other buying that product, transferring it to the U.K. and carrying out the final refinement here. In the case of Alginates, however, there is no transaction of sale of the raw product but we are required to split the company's total profit as if there had been such a sale in order to arrive at the overseas profit. The difficulty appears to be that there is no-one else engaged in this industry and there is, therefore, no price for the material exported from the islands which we can attribute to the company's establishment there.

2. The company's own proposal that we should assume their overseas profit to be 10% of their overseas costs is very simple but appears to have no logical justification. Very heavy overseas costs could result in a final loss, and very small costs might give rise to a substantial profit. I suppose the probability is that the adoption of this 10% would be favourable to the company in the long run if the project prospered but it might be slightly favourable to the Government in the first years while the project was being built up. I certainly think that it would be most inadvisable for the Colonial Government to tie itself to this arbitrary formula for a long period, since they might find themselves ultimately deriving only a miserable amount of tax from a flourishing and prosperous concern.

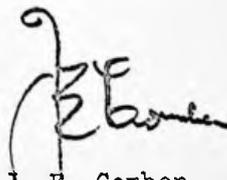
Contd.

395  
27

3. As promised I have spoken to Somerset House about the granting of double taxation relief since, although we are not immediately concerned with this, the readiness of the company to agree to any formula will depend upon their knowledge that they are not ultimately going to bear the Colonial tax but will recover most of it against their U.K. tax. Somerset House say that they will accept any formula for arriving at overseas profits which is "reasonable" but I think there is a feeling that 10% of the overseas costs is not reasonable in the sense that it cannot be justified by any process of reason. However, the Inland Revenue would not be worried if it could be shown that 10% of costs produced too low a figure of overseas profit since they would then be asked to provide a low figure of double taxation relief. If the 10% formula were consistently too low the company would be able to get its relief against U.K. tax, but the Colonial Government would be the sufferer. The real problem would arise if the 10% seemed to be too high in the early years and the company would then feel discontented, although they had the possibility of this basis proving favourable to them in later years.

4. My own view is that the 10% formula ought to be rejected and another attempt made to arrive at the overseas profits by some formula derived from the company's total profits. The inducement that we could offer to the company would be that such a formula, although it might contain many approximations, would have an air of being reasonable and would, therefore, appeal to the Inland Revenue and would give the company a better prospect of obtaining double taxation relief. If you would like me to assist in negotiations to arrive at a new formula I should be very happy to do what I can. I have already met the company's Managing Director, Mr. R.R. Merton.

Yours sincerely,



J. E. Comben  
Official Representative

No. 155

16 June 1971 1000Z

RESTRICTED

Kinnear's letter of May 14.

Alginate Industries

General comments now received on revised heads of agreement suggest that while having regard for need to provide reasonable inducement and security for capital investments the package as a whole concedes more than necessary to Alginate Industries and would unduly restrict your power to obtain reasonable share of benefit if Industry prospers. Particular comments follow.

Clause 2. 50 years exclusive concession considered excessive. 10 or 15 years normally adequate to amortize this type of investment.

Clause 3. Exclusion of future competitor from other areas could be against your interests. Suggested that wording of final agreement should preferably not preclude your accepting better offer at future date.

Clause 4. Appear not practical significance.

Clause 5 - 7 are covered in Control of Kelp Ordinance, therefore superfluous.

Clause 8. Words 'Kelp of any species! only species defined in Ordinance can be covered.

Clause 9 (ii). We consider you should press for payment to be due at date of export rather than annually in arrears. This would help revenue cash flow when production expands.

Clause 9 (v). Tying of royalty rate to this price index which is unlikely to reflect directly any changes in overall profitability could be unduly restrictive in longer term if enterprise prospers.

Clause 11. Disadvantage of tax proposals in combination with Clause 9 is that F.I.G. would not benefit from any rising profitability per ton. Alternative means of assessment may however be difficult. If it is adopted there should be a review after say five years. Further tax advice follows.

Clause 15 is not considered acceptable since F. I. G. may require to adjust general taxes and ..... in future years.

We appreciate that you have already agreed in principle to 50 years concession. However we strongly recommend that you press for inclusion of a clause providing that terms of Clause 9 may be reviewed after first ten years and after each succeeding five years if due notice is given by either party.

Our assessment is that Alginate Industries are very anxious to proceed and could be pressed to accept this and possibly other points in your favour without danger of them backing out.

Grateful for your views. We are prepared to assist with negotiations if you wish.

LJC : Conf

DECODE.

397

TELEGRAM SENT.

From GOVERNOR to SECRETARY OF STATE

Despatched: 24/6/71 Time: 14.00 Received: Time:

No. 220  
PRIORITY  
TO FCO  
CONFIDENTIAL

Alginate Industries

I have not yet received Kinnear's letter of May 14th and presumably it is in one of the bags arriving here on the Darwin at the end of the month.

2. In general I agree with your views and welcome your offer to assist with negotiations.
3. I will be in touch again after the receipt of mail.

LEWIS

LJC : Cypher

Alginate Industries Limited

mentioned, before you left for Salvador, that you would like to see the papers which you understood had arrived in the last mail on Alginate Industries Limited. There are 23 pages of them and, somewhat exasperatingly, incomplete at that. The papers consist of:

(a) pp 373-4. Letter from Kinnear of 14th May purporting to cover a letter dated 13th May from West of the Valuation Office containing details of the provisional agreement on the licence fee and royalties reached by him with A.I.L. West's letter is in fact not attached to Kinnear's letter, though there is a letter dated 6th May from West to the Secretary of A.I.L. at pp 390-1. The main point in Kinnear's letter is that the basis provisionally agreed with A.I.L. is for a royalty of £1.90 per metric ton of dry milled kelp plus an additional 20p whenever production exceeds 8,000 metric tons per year. Kinnear states in his paragraph 5 that he will telegraph us the comments of the F.C.O's advisers on the agreement. A search here has revealed that the telegram in question, number 155 of 16th June, is at G.H. and since I am sending this file to you I have not called for it to be sent down from G.H. Kinnear also says that he is keeping Sir Hubert Flaxman, our Legal Adviser, in touch. As we expected, A.I.L. do wish to harvest some quantity of Lessonia and propose a royalty of £1.90 per metric ton. Our Kelp Harvesting Ordinance will need to be amended to take account of this as well as the possibility that the company may wish to harvest Durvillea.

(b) At p.375 is a further letter from Kinnear, dated 17th May, containing a revised document 'Heads of Agreement' which he has received from A.I.L. together with other connected, but again unfortunately incomplete, documentation (to be found at pp 376-391). I have not yet had the opportunity to compare the Heads of Agreement at pp 379-382 herein with those at p.274 in volume 3 attached below; but also that Merton's letter to Kinnear pp.376-8 specifically states that his company's latest draft is based on that which they originally proposed in 1969, rather than on the shortened version which appears at p.274 in volume 3. A detailed comparison of the various versions will have to be made. At a quick glance it seems probable that the only real items of contention in the new Heads of Agreement are clause 15, against which Exco firmly set its face when this matter was last discussed, and, possibly, 130, in respect of which F.I.G's offer has so far been restricted to use of the waters of the Murrell river. *(I have since found I am wrong about this. See marginal references at pp. 379-382).*

(c) As I have mentioned above, pp 390-1 is a letter from West of the Valuation Office to the Company's Secretary. We have unfortunately not received West's letter on the 13th May to the F.C.O. and there is no reason to believe that these pages contain anything other than the same proposals. However, it might be as well for us to keep the records straight by sending to the F.C.O. the telegram which is in manuscript draft at b.o.f. West, as you are aware, negotiated on our behalf, subject to our final clearance. I would say that he has done a good job for us and that we are not in a position to question the results.

(d) At p.392 is a further letter from Kinnear dated 23rd June containing two attachments, the important one of which is that at pp 394-5 on the subject of Alginate's assessment for tax. I will in due course pass this to the Acting Commissioner for comment but it would appear that the situation is that while the Overseas Territories Income Tax Office does not much like the formula proposed by the company it has not come up with anything better.

2. As always in circumstances such as these, the company is looking for an immediate answer. However, important though this question of Alginates is, it will have to rank in priority after our communications exercise including the Peat, Marwick & Mitchell Report. This being so,

/you

399  
you may wish to consider sending some interim reply to the F.C.O. assuring them that the question of A.I.L. is receiving attention but must, of necessity, take a lower priority at the moment than communications questions.

3. I have inserted marginal cross references to the earlier volume on pp 379-382.

4. On section of file 1. will have the Heads of Agreement now prepared by A.H. Steinhilber & circulated to Council.

J.A.J.  
12.7.71

Addendum.

Having now been FCO telco. 155, a copy of which I have asked for P.S. to provide, I can produce an Exco. Memorandum on this subject. I suspect it will need a meeting to itself & this is an awkward time of the year for such a thing. We could aim at having a meeting on this subject alone once the SOA/GFE annual meetings are over & before W.P. Faliga returns to camp?

J  
13/7

to Mr. B.,

Mr. A. M. ...  
should be ...  
might ...

14/7

Mr Booth

Sp. for dictation of Exco. Memorandum  
for this on Thursday morning, 15/7.

J  
14/7

C.T.

400

I mentioned to you yesterday that, because of the time factor, I had been obliged to produce a Memorandum for Executive Council on the recently received 23 pages of material about Alginate Industries without reference to you. The material which came in by the last mail starts at p.373.

2. The Memorandum is being run off today. A personal copy will be sent to you in the normal way and a copy will be placed in this file but as this may take a day to effect I am passing you the file now so as to enable you to look at the papers, in particular the advice from the Overseas Income Tax Advisory Office, over the weekend. I shall be glad to receive any comments you may wish to make in the file both generally on the latest position as well as specifically on the tax question.

3. I am not yet sure when H.E. proposes to hold the meeting of Exco at which this Memorandum will be taken but understand his intention is to hold a meeting at which the most important outstanding business, among which this item has a leading place, will be dealt with before Mr. Pitaluga returns to Salvador after the S.O.A. week.



J.A.J.  
16.7.71

21

# CONFIDENTIAL

## EXECUTIVE COUNCIL

No. 37/71

### ALGINATE INDUSTRIES

Memorandum by the Colonial Secretary

Previous ref: Executive Council Meeting No.8/70, Minute No. 19

Members will recall that the negotiations with Alginatc Industries Limited were dependent upon the efforts of the Valuation Office of the Inland Revenue Department over the royalties question. These negotiations have been protracted, partly due to the illness of one of the individuals directly concerned in them.

2. The basis upon which the royalty negotiations were undertaken was for the Valuation Office to act on our behalf and to refer back to the Falkland Islands Government when provisional agreement with Alginatc Industries Limited had been reached. Provisional agreement between the Valuation Office and Alginatc Industries has now been reached for a royalty of £1.90 per metric ton of dried milled kelp plus an additional royalty of 20p whenever production exceeds 8,000 metric tons per annum. This is a reasonably satisfactory basis, it is suggested.

3. Members will also recall the draft Heads of Agreement which were originally submitted to the Falkland Islands Government by Alginatc Industries Limited and which were circulated to Executive Council under Memorandum no. 52/69. Members will also recall that subsequently Alginatc Industries Limited were induced to agree to modifications of their first draft of the Heads of Agreement and that in Memorandum no. 110/69 the decision was subsequently sought and agreed to for the question of royalties and connected matters to be dealt with on our behalf by the Valuation Office. Early in 1970, by agreement between the F.I.G. and the F.C.O. a letter of intent was sent by the latter to Alginatc Industries which has formed the basis of the provisional operations, primarily of an investigatory nature, which the company has carried out locally after establishing its pilot plant.

4. The Company, having reached provisional agreement with the Valuation Office on the question of royalties, has now put forward a further draft of the Heads of Agreement which is annexed hereto (Annexure 1). This draft embodies an arrangement provisionally reached between the Valuation Office and the Company for combining the licence fee and royalty. It has been explained in correspondence from the F.C.O. that this not only simplifies the method of payment but is in line with the method usually adopted in such agreements. Apart from this the draft attached as Annexure 1 follows, generally speaking, earlier drafts embodying the F.I.G.'s counter suggestions to the Company. There are some variations: for example clause 8 of the draft has been modified so as to leave the Falkland Islands Government the right to revoke the exclusivity of the licence. As the Company correctly states, this is in accordance with our intention. Clauses 11 to 17 of the draft were included in the Company's original draft and Members will recall that our comment on these clauses was confined to no. 15 where the F.I.G. stated that it could not contemplate giving the guarantee sought by the

/Company

Company and so fettering its power to tax and the powers of its successors. The Company has rejoined that it considers, after careful thought, and with respect, that the point made by the F.I.G. is not valid and that many instances of governments committing themselves in a similar manner could be recited. The Company adds that what is true is that in the event of a government failing to honour such a clause in an agreement, means of redress might be hard to come by.

5. The Foreign and Commonwealth Office has commented at some length on the proposed revised Heads of Agreement. Its general comment states that, while having regard to the need to provide reasonable inducement and security for capital investment, the package proposed by the Company concedes more than necessary to it and to agree to it would unduly restrict the F.I.G.'s power to obtain a reasonable share of benefit if the industry prospers. Members may consider that this general comment, as well as the more detailed comments which follow, might have been made by the Foreign and Commonwealth Office earlier in the negotiations. However, as will be seen in a later paragraph of this Memorandum, the F.C.O. is prepared to assist us with negotiations and indeed it is difficult to see how the suggestions which they have now made could be pursued by the F.I.G. unilaterally. F.C.O.'s specific comments (references are to clause numbers in Annexure 1) are:

- (1) Clause 2 50 years exclusive concession is considered excessive. 10 to 15 years are normally considered adequate to amortize this type of investment;
- (2) Clause 3 The exclusion of future competitors from other areas could be contrary to the F.I.G.'s interests. It is suggested that it would be preferable for the wording of the final agreement to be such as not to preclude the F.I.G.'s accepting a better offer at a future date;
- (3) Clauses 5 to 7 are covered in the Kelp Harvesting Control Ordinance and would therefore appear to be superfluous;
- (4) Clause 8 With regard to the words "kelp of any species", only species defined in the Ordinance can be covered. (2 of the 3 main species, namely *Macrocystis* and *Lessonia*, are currently mentioned in the Ordinance. It is the intention to amend the Ordinance to provide for the inclusion in it of the third species *Durvillea*.)
- (5) Clause 9 (ii) It is suggested that the F.I.G. should press for payment to be due at the date of export rather than annually in arrears.
- (6) Clause 9 (v) It is suggested that tying the royalty rate to this price index which is unlikely to reflect directly any changes in over-all profitability could be unduly restrictive in the longer term if the enterprise prospers.
- (7) Clause 11 The disadvantage of the tax proposals in combination with clause 9 is that the F.I.G. would not benefit from any rising profitability per ton. However, it appears that alternative means of assessment will be difficult. The F.C.O. states that further advice on the taxation aspect will be made available. The basis of the advice contained in this sub-paragraph is to be found in the letter from the Overseas Territories Income Tax Office to the Foreign and Commonwealth Office which is attached as Annexure 2.
- (8) Clause 15 The F.C.O. does not consider that this clause is acceptable since the F.I.G. may require to adjust general taxes in future.

The Foreign and Commonwealth Office states that it appreciates that the Falkland Islands Government has already agreed in principle to a 50 year concession but nevertheless strongly recommends that we press for inclusion of a clause providing that the terms of clause 9 may be reviewed after the first 10 years and after each succeeding 5 years if  
/due

due notice is given by either side.

6. The F.C.O's assessment of the overall situation is that the Company is very anxious to proceed with the project and could be pressed to accept the proposals contained in the immediately preceding paragraph without danger of their backing out. The F.C.O. seeks the F.I.G's views and, as indicated above, states that it is prepared to assist with negotiations if we so wish.

7. Council is invited to consider

- (1) Whether to accept the combined licence and royalty proposals provisionally agreed between the Valuation Office and the Company;
- (2) Which of the proposals made in paragraph 5 it would wish to have made to the Company as counter suggestions to the draft Heads of Agreement attached as Annexure 1;
- (3) Whether to accept the F.C.O's offer to negotiate with the Company on our behalf.

(J. A. Jones)  
Colonial Secretary

File Ref:0004/IV  
15th July 1971  
JB

FALKLAND ISLANDSDRAFT HEADS OF AGREEMENT

1. Alginate Industries welcome the co-operation and assistance of the Falkland Islands Government in their venture to provide a kelp supply base at Port Stanley. ✓
2. Until the Company is able fully to exploit all the waters of the Colony it is accepted that an initial exclusive concession for fifty years should be limited to the coastline of the East Falkland and adjoining Islands. i.e. to an area South of a line between points (A) 51 degrees 32 minutes South 57 degrees 41 minutes West and (B) 52 degrees 06 minutes South 60 degrees 11 minutes West. ✓
3. Should the Company eventually wish to apply for a larger exclusive concession, the Falkland Islands Government would be prepared to negotiate. In the event of any other operator applying for concessions in the uncommitted area, with a view to harvesting Kelp for export on a commercial scale, the Company would be given the opportunity of first refusal. ✓
4. The Company would take into account the fact that, in certain instances, kelp beds are an aid to navigation and play an important part in the preservation of wild life. ✓
5. It is understood by the Company that kelp could be harvested by any individual, or group of individuals, resident in the Falkland Islands, for use only within the Islands. ✗
6. The Company would be required to carry on all its harvesting operations in a safe, orderly, skilful, efficient and workmanlike manner and not to cause danger of damage to persons lawfully using or being on or in the foreshore or the territorial waters of the Colony. ✗
7. The Company would be required to take due and proper precautions for the safety of all persons employed by it in harvesting operations. ✗
8. */annual*  
The Falkland Islands Government would grant the Company an exclusive Licence, at a nominal/fee, to collect kelp or any species within the concession areas during the 50 year term of the Agreement. The Falkland Islands Government would retain the right to reconsider the exclusivity of the Licence should the Company fail to produce the annual quantities of dried milled kelp specified below:  
*for*  
An average of 4,000 tons a year over two years as from the end of three years after the Licence is first granted.  
An average of 8,000 tons a year over two years as from the end of ten years after the Licence is first granted.
9. */draft*  
The proposed licence fee of £1,000 having at the recommendation of the Valuation Department of the Inland Revenue been merged with the royalty payments proposed in the previous/Heads of Agreement, the Company offers to pay to the Falkland Islands Government the following royalties upon its production of dried milled kelp at Port Stanley:  
(i) A royalty to be paid by the Company to the Falkland Islands Government of £1.90 for every metric ton of dried milled kelp subject to a minimum annual payment of £2,500.  
(ii) The annual payment to be made not later than February 1st in each year and to be based on the amount of dried milled kelp

*/produced*

produced in the Falklands during the 12 months ending on December 31st the previous year.

(iii) The royalty payment to commence in the year following that in which more than 1,000 metric tons of dried milled kelp are produced, or on February 1st 1975, whichever is the earlier.

(iv) Whenever the annual production of dried milled kelp exceeds 8,000 metric tons an additional royalty of 20p to be paid for every metric ton in excess of 8,000.

(v) The royalty of £1.90 and the additional royalty of 20p to be reviewed every 5 years i.e. for every period of 5 years commencing on the 6th, 11th and 16th year and so on. The new royalties will bear the same relation to the initial royalties as the average Wholesale Price Index numbers of output (Chemical and Allied Industries - total sales) issued by the Statistics Division of the Department of Trade and Industry for the year ending on June 30th prior to the review date bear to similar figures for the year ending on 30th June prior to the date the first royalty becomes payable.

(vi) In the event of the wholesale price index numbers ceasing to be issued or being issued in a different form and in the event further of a dispute arising as to what the index numbers for review would be, the question of what the index numbers would be if they had continued to be issued to be submitted for arbitration by a single arbitrator appointed by the President for the time being of the Institute of Arbitrators.

10. In advance of the main Agreement, the Company wishes to collect, dry and mill relatively small quantities of lessonia seaweed. The Company offers a royalty of £1.90 on each metric ton of dried milled lessonia produced, payable on 1st February of each year, without minimum payment or minimum quantity.
11. Profits subject to Falkland Islands taxation would be expressed in terms of a percentage of the annual production costs, including overheads and plant depreciation, as from the date when the licence became payable. These costs would not however, include any write-off of expenditure not represented by fixed assets (e.g. consultants fees, costs of charting weed beds etc.), incurred in the initial stages and originally charged to a development or similar account.
12. In respect of power requirements, every effort would be made to provide for the pilot plant up to a loading of 100 kW, although it would be understood that the load may have to be restricted during peak periods.
13. It is understood that the Company would be responsible for providing their own water supply at the unit stage, and subject to any previous water extraction grants, would be allowed the use of water from the Murrell River, or any other suitable supply in the area, free of tariff. Likewise, it is agreed to allow a supply pipe from the source to the site of the factory to be laid on the surface of the Camp provided that adequate crossing places, to be determined by agreement, were provided for. No rental would be charged for the land taken up by the supply pipe.
14. Equality of treatment with other commercial undertakings would be guaranteed in respect of port dues and harbour rights.
15. The Falkland Islands Government shall not during the 50 year term of this agreement levy any new tax or impost, such as a fuel tax or export duty, which might have an adverse or discriminatory effect upon the Company's operations in the Falkland Islands.

16. The Company would appreciate all possible support from the Falkland Islands Government in its present negotiations with the Ministry of Defence and the Navy Department in connection with leasing the Camber Site and oil storage facilities, this site and these facilities being essential to the Company's proposed operations.
17. These present draft Heads of Agreement, dated 14th May 1971, replace and cancel the Heads of Agreement submitted to Sir Cosmo Haskard by Mr. R. R. Merton on August 7th 1969, and referred to in part in the Annexure to Mr. A. C. W. Lee's letter to Mr. R. R. Merton dated April 6th 1970.

The Company looks forward to the formal acceptance of these Heads of Agreement by the Falkland Islands Government, so that the Agreement incorporating these terms and conditions may be signed at an early date.

ANNEXURE II

The Overseas Territories Income Tax Office,  
26 Grosvenor Gardens,  
London, SW1W 0DX  
16th June 1971

M. B. Allen, Esq.,  
Foreign and Commonwealth Office,  
London, S.W.1.

Dear Allen,

The Falkland Islands  
Alginate Industries Ltd.

I tried unsuccessfully to telephone you yesterday and then decided that I had better put the considerations relating to this company in a letter since they turn out to be rather complicated.

1. The Double Taxation Agreement between the U.K. and the Falkland Islands restricts the Income Tax payable to the Falkland Islands Government to tax on the profits attributable to the company's establishment in the islands. This means that the islands cannot tax any part of the company's profit which arises after the export of their product from the islands. In many similar cases (e.g. oil producers) this is relatively simple because we often have two companies: one of them gathering the raw product and subjecting it to initial processing overseas, and the other buying that product, transferring it to the U.K. and carrying out the final refinement here. In the case of Alginates, however, there is no transaction of sale of the raw product but we are required to split the company's total profit as if there had been such a sale in order to arrive at the overseas profit. The difficulty appears to be that there is no-one else engaged in this industry and there is, therefore, no price for the material exported from the islands which we can attribute to the company's establishment there.

2. The company's own proposal that we should assume their overseas profit to be 10% of their overseas costs is very simple but appears to have no logical justification. Very heavy overseas costs could result in a final loss, and very small costs might give rise to a substantial profit. I suppose the probability is that the adoption of this 10% would be favourable to the company in the long run if the project prospered but it might be slightly favourable to the Government in the first years while the project was being built up. I certainly think that it would be most inadvisable for the Colonial Government to tie itself to this arbitrary formula for a long period, since they might find themselves ultimately deriving only a miserable amount of tax from a flourishing and prosperous concern.

3. As promised I have spoken to Somerset House about the granting of double taxation relief since, although we are not immediately concerned with this, the readiness of the company to agree to any formula will depend upon their knowledge that they are not ultimately going to bear the Colonial tax but will recover most of it against their U.K. tax. Somerset House say that they will accept any formula for arriving at overseas profits which is "reasonable" but I think there is a feeling that 10% of the overseas costs is not reasonable in the sense that it cannot be justified by any process of reason. However, the Inland Revenue would not be worried if it could be shown that 10% of costs produced too low a figure of overseas profit since they would then be asked to provide a low figure of double taxation relief. If the 10% formula were consistently too low the company would be able to get its relief against U.K. tax, but the Colonial Government would be the sufferer. The real problem would arise if the 10% seemed to be too high in the early years and the company would then feel discontented, although they had the possibility of this basis proving favourable to them in later years.

4. My own view is that the 10% formula ought to be rejected and another attempt made to arrive at the overseas profits by some formula derived from the company's total profits. The inducement that we could offer to the company would be that such a formula, although it might contain many approximations, would have an air of being reasonable and would, therefore, appeal to the Inland Revenue and would give the company a better prospect of obtaining double taxation relief. If you would like me to assist in negotiations to arrive at a new formula I should be very happy to do what I can. I have already met the company's Managing Director, Mr. R. R. Merton.

Yours sincerely,

J. E. Comben  
Official Representative

MJ

DECODE.

TELEGRAM SENT.

From GOVERNOR to SECRETARY OF STATE

Despatched: 29.7.71

Time: 1600

Received:

Time:

No. 269

Yourlet HGF 73 of 14th May and Yrtel 155 of 16th June  
Alginatc Industries Limited. The proposals for combining  
the Royalty and Licence fee as well as the figure of \$1.90  
for the royalty per metric ton as well the same figure for  
interim use with regard to Lessionia are acceptable. Para  
2. This government considers that it has done all that is  
feasible at long range with regard to negotiating with the  
company and at this stage gladly accepts your offer to neg-  
otiate, in particular upon the points raised in yrtel under  
reference in respect of clauses 2 to 4,8,9 (ii) and 15 of  
the redrafted heads of agreement. F.I.G. also accepts the  
validity of your comments about the unnecessaryness of  
clauses 5 to 7; proposes to amend the control of kelp ordi-  
nance to bring within its ambit the third species of kelp  
Durvillea; and agrees to your attempting to negotiate on  
its behalf review clauses in connection with clause 2.  
Para 3. The F.I.G. shares your and your advisers view that  
the formula proposed by the company for assessing the amount  
of their overseas profits is not founded on reason and seeks  
your assistance in reaching a formula which will need to  
meet the inescapable criterion of acceptance by the British  
Tax Authorities. Para 4. The proposal for tying the royalty  
rate to the price index was made originally by this Govern-  
ment on the assumption that it would protect its interests.  
If this is not the case it will be appreciated if the possi-  
bility may be explored of agreeing upon some other formula  
which will more directly reflect changes in profitability.

LEWIS

0004/1v

410

RESTRICTED



Atlantic & Indian Ocean Dept.  
Foreign and Commonwealth Office  
London S.W.1

*J*  
*1/30/7*

HGF 7/3

1 July 1971

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

*Dear John*

ALGINATE INDUSTRIES LTD

1. In paragraph 4 of my letter to you of 23 June I mentioned that Alginate Industries were not ready with details of their requirements at the meeting with the Ministry of Defence on 18 June and the question of rent to be charged for Admiralty property used by Alginates was not therefore discussed.

4!!

2. It appears that Alginates will not have their proposals ready for some little time and I therefore enclose a copy of a letter dated 7 June from Mr Turner in the Ministry of Defence in which he mentions a possible rent of £1,000 per annum for the Depot plus an output charge per ton of milled kelp.

3. The Ministry of Defence would be most grateful for any comments you may have in regard to this matter which will assist them at their next meeting with Alginate Industries Ltd.

*Yours ever*  
*George.*

G F Kinnear

410A

*Fr R content in 0004 & note for mention,*  
*if HE no derives, at EXCO on Wed, 6/7.*

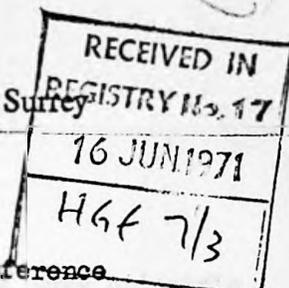
*J*  
*1/30/7*

RESTRICTED



MINISTRY OF DEFENCE  
Tolworth Tower, Broadway, Tolworth, SURBITON, Surrey

Tel: 01-399-5281 Ext 135



G F Kinnear, Esq  
Foreign & Commonwealth Office  
LONDON SW1

Your reference

Our reference  
A/119/Abd/6281/Lands 1a  
Date

7 June 1971

Dear *Kinnear*

FALKLAND ISLANDS

1. We spoke recently on the possibility of Alginat Industries Ltd occupying part of the Ministry of Defence Fuel Depot in the Falkland Islands. You will doubtless have a copy of the Minutes of the Meeting held in the War Office, Whitehall, on the 22 June 1970, and you will have noted that the Falkland Island Colonial Secretary Mr Jones, considered rent should not be discussed until the terms and conditions of the licence to harvest Kelp had been settled.
2. I now understand that the Chief Valuation Office has agreed provisionally the Royalty to be paid per ton of milled Kelp subject to the agreement of the Falkland Government. As a result, Mr Stewart, the Secretary of Alginat Industries, has asked me to call a further meeting to take the June 1970 discussions a step further towards agreeing terms and conditions for a lease of Ministry of Defence land+facilities for possibly 20 or 50 years, with the Company's option to break at the end of each 7th year of the term. Obviously, as a military establishment, we will wish to impose certain restrictions, and we will also wish to review whatever rent is agreed periodically.
3. I am aware that the decision of the Company to harvest Kelp in the Falklands, is specifically linked with the use of our land and facilities, because of the availability of fuel, and the Camber in which they need to store the Kelp in sea water before processing. Without these facilities, they would be unable to operate on a commercial scale.
4. If my information is correct, the Company expect to produce at least 4,000 tons of milled Kelp per annum by or before 1975, rising to 8,000 tons, and at the rate of £1.90 per ton the royalty will amount to £7,600 rising to over £15,000 per annum on the figures quoted above. There is no capital expenditure by the Government of the Falkland Islands to obtain this income under the Licence to the Company. On the other hand, the Ministry of Defence facilities (Camber, Fuel Depot, Re-fuelling jetty, crane etc) were provided at considerable expense from military votes, and I am faced with the problem of assessing a fair rent for not only the land, but for the use of Ministry of Defence facilities, which is essential for the success of the operation of harvesting and processing of Kelp by the Company.
5. The present cost to the Ministry of Defence to maintain and operate the Depot is £7,000 per annum, and at this stage, it would appear inadvisable to allow the Depot to be run other than by the Falkland Island Company.
6. My thoughts therefore run along the lines of £1,000 per annum, plus an output charge per ton of milled Kelp from the Depot, similar in effect to the procedure

412  
2

adopted with the letting of Fuel Depots to Petroleum Companies. If this principle is accepted, the Ministry of Defence will benefit with the Company's success, and will also be accepting a lower income if there is a recession in the Company's commercial venture.

7. The Ministry of Defence have no professional Lands representative in the Falklands, and I will be grateful if you would seek Government advice on the rent they consider we might reasonably be expected to obtain for land and use of the Ministry of Defence facilities referred to above. I do not think it necessary to expand further on this subject, as the Falkland Island Government are fully aware of Alginate Industries intentions, particularly as Mr Jones was at the meeting on the 22 June 1970.

8. I will be grateful therefore if you will obtain their views as quickly as possible, in order that we can open negotiations on rent, if the decision of the Meeting called for the 18 June is to take the negotiations to finality.

Yours sincerely

J TURNER

tel to FIG  
K/2/6

Y.E.

This file was thrust into my hands on the eve of Exco. Nobody's fault really. Sickness has seriously interfered with my office staffing arrangements and submission of the papers in file was inadvertently overlooked.

2. Writing from memory the suggestion for a figure of £1,000 p.a. rent was made by us (in fact, by you). The telegram in which you made the suggestion is apparently filed at G.H. (see p. 371) and there is no copy in this file. As the suggestion for the figure came from us and as your telegram set out the considerations it seems time wasting for the office to have sent us p.410. Perhaps I could have a copy of your telegram for this file and perhaps you would at the same time let me know whether you want any particular points made in response to p.410? I don't really see that we can contribute anything more to this negotiation than we already have done, unless you think that £1000 represents too small a proposition of the annual cost, £7,000, of renting the Camber facility and that a slightly higher figure than £1,000 would be appropriate.

J.A.J.

6/8/71

L.A.S.

A copy of my letter is at p 372.

2, I think the suggestion in p.410 of £1111 is a good starting point. If the company does not like the idea of an outright charge then the rent on my account should be set from £1000 to £1500-£2000.

G.L.  
a/s

MINUTES OF EXECUTIVE COUNCIL MEETING NO. 10/71 HELD  
ON MONDAY 26TH JULY 1971

0004/IV 2. ALGINATE INDUSTRIES LTD. (Memo 37/71) 401

The Colonial Secretary, who was present at discussions held between the Ministry of Defence, the Foreign and Commonwealth Office, Alginate Industries Ltd. and the Falkland Islands Company Ltd. in London in June 1970, introduced the subject. After deliberation, Members advised that:

- (i) the combined licence and royalty proposals provisionally agreed between the Valuation Office and the Company should be accepted;
- (ii) the figure of £1.90 for the royalty per metric ton and for interim use with regard to Lessonia was acceptable;
- (iii) in the draft Heads of Agreement -
  - (a) Clause 2: the 50 years exclusive concession was excessive, and a system of review periods should if possible be negotiated;
  - (b) Clause 3: the exclusion of future competitors from other areas of local waters would be against the Colony's interest;
  - (c) Clauses 5 to 7: are covered in the Kelp Harvesting Control Ordinance and should therefore be regarded as superfluous;
  - (d) Clause 8: the Kelp Harvesting Control Ordinance should be amended to include the species of kelp known as Durvillea;
  - (e) Clauses 11 and 15: further advice should be sought from the F.C.O. on these clauses which deal with tax proposals;
- (iv) Government should accept the offer by the Foreign and Commonwealth Office to negotiate with the Company on its behalf, in particular with regard to the matters at sub-paragraph (iii) (a) - (e)

*G. G. G. G.*  
Ag. CLERK TO COUNCILS

10th August

71

F.C.O. Ref: HGF 7/3

Alginatc Industries Limited

In your letter of the 1st July you indicated that the Ministry of Defence would be grateful for our comments regarding the formula for and amount of rent which they might charge Alginatc Industries Limited for the use of facilities at the Camber.

In our view the formula proposed by the Ministry of Defence at paragraph 6 of Turner's letter to you is a sound one since, as Turner points out, it would provide for that Ministry to benefit with the Company's success while at the same time accepting the principle of receiving a lower income if the Company's operations are not particularly successful. Should the Company, however, decline to agree to the proposed formula we consider that the amount of fixed rent should be in the range £1,500 to £2,000 in view of the annual cost to the Ministry of Defence of maintaining and operating the Depot facilities.

(J. A. Jones)

G. F. Kinnear, Esq., O.B.E.  
Foreign and Commonwealth Office,  
(S.A. & I.O. Dept.),  
London, S.W.1

JB

# ALGINATE INDUSTRIES

415

LIMITED

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

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

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



8th August 1971

His Excellency The Governor  
Government House,  
Stanley.

Dear Mr Lewis.

Upon the occasion of the forthcoming visit of Lt Col Wheatley, Capt Melrose, Señores Louge, and Balcarce and also members of the Fuerzas Aereas Argentinas, it occurred to us that maybe the last-mentioned part of the contingent perhaps do not speak much English. As both my wife and myself speak Spanish and we are former residents of Argentina, we would gladly render any assistance should it be required, to ease any difficulties which could arise and perhaps in this way be instrumental in making their stay here more pleasant. When I say the last part of the contingent I refer to the Airforce personnel naturally.

We trust that this offer is taken in the same spirit as intended, and hasten to assure your Excellency that we are not attempting to push forward or ingratiate ourselves in any way, but would willingly assist unintrusively in any capacity should the need arise, as interpreters.

With every best wish for success and good understanding in the forthcoming negotiations. I have the honour of remaining

Your obedient servant.

Dudley F Gooch.

*For this is the most helpful letter, will you please thank Mr. Gooch and tell him we will call on him if we find the need.*

*Reply at 416*

*G.L. 10/8*



Ref: 0004

12th August, 1971

415  
The Governor has asked me to convey his thanks to you for the generous and helpful offer made in your letter to him of the 8th August.

We will certainly be glad to call upon your assistance if need arises.

The spirit in which your offer is made is both understood and much appreciated.

(J. A. Jones)

D. F. Gooch, Esq.,  
Colonial Manager,  
Alginate Industries Ltd.  
Stanley.

JB

*BU 1 work.*

*J. A. Jones*

*By 17.9.71.*

0004/IV  
- 8 JUL 1971

Carrageen is one of the most versatile growths the ocean supplies.

417

# Seaweed For Food And Use In Industry

IT is not generally realised that at least a million tons of seaweed are harvested every year from the shores and inshore waters of countries as far apart as Ireland and Korea, the United States and Australia, Denmark and New Zealand, Canada and South Africa, Ireland and Japan. They are processed by the chemical, pharmaceutical, textile, food and fertiliser industries.

Yet the oceans' literally gigantic resources in seaweeds remain for the most part unexploited. For another little known fact is that seaweeds are the most plentiful species of the plant world. In the Arctic alone there are 250 species; there are 300 on the shores of South Africa; a further 900 species are found in the Caribbean; and no fewer than 1,200 thrive in Australasian seas. In these islands Scottish crofters have long used seaweed as a fertilizer and, as an example of its abundance, four million tons are cast up annually along Scotland's shores alone.

## HUGE SHAPES AND FORMS

Seaweeds are not only the most abundant of the world's vegetation, but they number among them the largest of all plant life. Many seaweeds exceed in size anything that flourishes on land, even the giant gums and ashes of Australia and the redwoods of the western United States. The Quest, ship of Sir Ernest Shackleton, the Antarctic explorer, on his last expedition, found enormous marine forests in the South Atlantic.

The official report of the voyage says that off the shores of South Georgia the bottom was rocky with several reefs. To quote "All were fortunately marked by kelp, large forms of seaweed, the great safeguard and aid to navigation around the island, except on the south, southwest and south coasts, where icebergs tear much of the kelp off. It frequently reaches the surface in 60 fathoms and even deeper water." There is evidence that individual plants grow to hundreds of feet in length and weigh many tons.

Corroboration of the value of seaweed in assisting navigation came quite recently in another report, this time of a naval hovercraft unit's trials in the Falkland Islands, which are extremely rich in seaweeds. The hovercraft was used inland, over stone runs, bogs and streams, and at sea between the 200 islands. Weather in the Roaring Forties produces strong gusty winds and short, steep seas, and the navy found the extensive kelp beds around the islands of great assistance in permitting fast running.

## £90 MILLION A YEAR

Seaweeds are growing more important industrially every year, and an ambitious plan to use Falkland Islands seaweeds to make alginates which would earn up to £90m a year in British re-exports, was put forward some little time back by a Scottish company, the world's second largest manufacturer. Alginates — chemicals extracted from dried seaweed — have many applications. They are used in food industries to stabilize ice-cream, in cosmetics, in textiles, for motor car tyres, and for medical dressings. The Falklands represent possibly the world's largest untapped source of raw material for alginate production.

The industrial importance of seaweed was emphasised during an International Seaweed Symposium which met at Edinburgh. It was attended by delegates from every maritime country, China and Soviet Russia excepted. One encouraging outcome of the conference was the grasp of the need to husband

even the world's abundant reserves of seaweed — and of protecting them from the ruinous effects of pollution, a menace sadly worsening. Channel Island authorities now strictly ration the cutting of "vraic" for fertilizers; Zanzibar controls collection by licence and the imposition of closed periods; and Japanese biologists have been experimenting with artificial seeding of the spores in order to encourage spread of the plants.

Few lay people, however, have much idea as to what has been going on. Most of us have a vague idea that iodine is or was extracted from seaweed. Nearly all of us have at sometime half seriously used seaweed as a barometer, or remarked upon its peculiar effluvium when washed ashore or stacked as fertilizer. And there ends our knowledge of seaweeds as an economic factor. In reality they are entering more and more into the lives of all of us.

## CARRAGEEN

It was World War I that sparked off progress in the scientific knowledge of seaweeds. The one most heard of then was carrageen, which is one of the most widely used and most valuable of all species. It is known as Dorset weed along parts of the English coast. Carrageen was once credited with extraordinary curative properties, was a fashionable remedy for tuberculosis, and sold for as much as half-a-crown a pound. It certainly seems to possess some virtue in the treatment of pulmonary and bronchial complaints. A preparation of it was given to victims of gas during the war named, and it was incorporated in jellies for enteric patients whom it benefited remarkably.

It was the last war, which began in 1959, that forced concentrated attention upon the potentialities of seaweeds. Hostilities made it imperative to investigate the possibilities of exploiting American and British seaweeds because when Japan joined the axis powers supplies of agar agar from there were cut off. This gelatin-like complex carbohydrate is derived from seaweeds and is used widely by the food industries and medicine and almost universally for bacterial and fungal cultures.

These days seaweeds are not only being converted into human and cattle foods, they are playing an enormous part in producing all manner of vital chemicals, in the making of plastics and "corrective reducing agents," in less flowery language, "slimmers." Studies at the Scottish Seaweed Research Institute have shown that extracts from seaweed are beneficial in treating peptic and gastric ulcers. This is only one possibility arising from investigations — which are still in their infancy — into obtaining new drugs from seaweeds.

As aids to surgery they are in increasing demand for dusting powders, penicillin salts, surgical gauzes, a wax essential to successful operations on the skull, a material used in the filling of badly torn tooth sockets and first aid dressings. Seaweeds now provide such diverse commodities as tooth brushes, chicken foods, and fire-proof curtains. In some countries they are recognised as essential fattening agents for important food fishes.

One of the most remarkable

of all seaweeds, carrageen, has been mentioned. It is commonly known as Irish moss and was widely used for food in Ireland and Scotland and still is to some degree. It is a short, tough weed, somewhat resembling paddy and grows as a thick carpet on flat rocks near the lower tidal limits. The colour varies according to the district, and it is sometimes red, purple, chocolate brown, or yellow.

The weed is gathered from the shore or from a boat when on a large scale, using a long-handled rake with thin, slightly curved teeth. Afterwards the moss is washed in sea water and spread on the shore to bleach in the sun. This washing process is repeated several times at intervals of a day or so. When the washing is completed the weed is boiled in milk to make a pleasant and satisfying blanc-mange. There is a demand for this species from the commercial manufacturers of table jellies and other gelatinous products.

The uses of carrageen are astonishing. In the food processing industry it is used by the makers of milk chocolate, minute breakfasts, sherbert, ice-cream, pie fillings, confectionery, beer, desserts, salad dressings, fruit syrups, flavouring icings, jellied poultry and fish soups. In other industries it is utilized in insect sprays, water-base paints, inks, cloth-sizing, paper-sizing, thread-sizing, shoe stain, shampoos, ointments, emulsions, tablets, finishing leather, graining leather, cosmetics and dental impressions and some printing processes.

## SEAWEED BANQUET

In Japan, Korea, China, Hawaii, in the old world in the western parts of the British Islands and Ireland, seaweeds have long been used for food. And if an experimental seaweed banquet prepared in a Wisconsin, U.S.A., town is anything to go by, its inherent properties are greater than most of us realise. At that meal nothing but dehydrated seaweed was served — seaweed fried, seaweed puree, seaweed roast, seaweed devilled, and in many other guises.

Scientists have suggested that seaweeds could play a big part in future space menus. It has been established that they can be successfully grown in rockets.

E. H. YARHAM

Bin 24.9.71.  
(476)

Bu 14/10 (409)



Foreign and Commonwealth Office  
London S.W.1

HGF 7/3

21 October 1971

J A Jones Esq OBE  
Colonial Secretary  
Stanley  
FALKLAND ISLANDS

*Dear John,*

ALGINATE INDUSTRIES LIMITED *409?*

1. On receipt of your telegram 264A of 28 July we put to Alginatc Industries the various changes that we proposed should be made in their draft Heads of Agreement sent with their letter to me of 14 May. After some correspondence with Alginatc about these points we held a meeting with the Company on 28 September at which agreement was obtained in regard to the changes proposed.
2. Unfortunately after the meeting Mr R R Merton, the Managing Director of Alginates, decided that the period after which the Falkland Islands Government would have the right to re-consider the exclusivity of the licence should be extended and in order to prevent a complete breakdown in negotiations we were compelled to make a slight concession.
3. All points have now been agreed between us and I attach a note explaining the changes proposed in the draft Heads of Agreement forwarded with Alginatc Industries letter of 14 May to us. I should be grateful if you will telegraph confirming that these changes are agreeable to you so that an agreement can be drawn up for signature without delay.

*See 421 + 429*

*Yours ever  
George.*

G F Kinnear  
Atlantic and Indian  
Ocean Department

*FCR 7/11*



HEADS OF AGREEMENT - DISCUSSION WITH ALGINATE INDUSTRIES LIMITED

A) Clauses 1, 5/7, 11/12 to be omitted

It was considered that clause 1 was unnecessary for inclusion in the agreement and that clauses 5/7 were already covered in the Control of Kelp Ordinance. In regard to clause 11, the Inland Revenue are not too happy with the proposal to fix an arbitrary percentage on production costs as the profit on which Falkland Islands taxation would be levied and it was agreed that, since no better formula could be devised, the assessment of tax on the Company's profits in the Falklands would be for discussion between the Company and the Government in the Falkland Islands in due course. It was agreed that clause 12 was not necessary for inclusion in the agreement.

B) Clause 8

A figure of \$1 as nominal annual licence fee was agreed. In regard to exclusivity of the licence, Alginat contended that the period in which an average of 4000 tons of Kelp over two years should be produced should date from when the first royalty was payable. After protracted discussion, it was agreed that the period should be extended from two years to five years from date of granting of the licence.

C) Clause 9(ii)

Instead of the annual payment of royalty being made not later than 1 February each year based on the amount of dried milled Kelp produced during the previous year, it was agreed that payment of royalty would be made 30 days after export from the Falkland Islands had been effected. This will mean that you should receive royalty payments earlier provided more than one annual shipment is made.

D) Clause 9(v)

Although the royalty of £1.90 per ton of dried milled Kelp was fixed by Mr West of the Inland Revenue on the basis of 1970 prices, the Company insists that the review date should be that contained in the draft Heads of Agreement and should not be 5 years from date of the agreement. Since this method of fixing the review date was stipulated in clause 5 of your original Heads of Agreement in 1960 in regard to licence fee, we have had to agree to a review date as proposed by the Company.

E) Clause 13

The Company agreed to amendment by us of the last sentence of this clause to read "No rental would be charged for any Falkland Islands Government land taken up by the supply pipe". We were not sure whether the supply pipe would cross any privately owned land but, if it does, the Company will have to negotiate a wayleave with the owner.



F) Clause 15

The Company's proposal in their draft Heads of Agreement was not acceptable to our Legal Adviser as it was far too wide and difficulties of interpretation would have arisen. It was therefore agreed that the clause should be reworded on the lines of the following

"The Falkland Islands Government shall not during the term of this agreement levy any new tax or impost which has a discriminatory effect on the Company's operations in the Falkland Islands."

C.T.

P. 418-420

for your comments before I pass to HE to see if comment, after which it will need to go to Executive Comm.

[C.T.'s comments at 422]

J  
1/6/11

Ref: HCF 715

6th November 1971.

Alurate Industries Ltd.

418

Thank you for your letter of the 21st of October.

Due to our other heavy commitments - C.F.A. visitors, the opening of the Antarctic Season, the arrival of the R.F.F. team, the crucial stage of the farming season, to mention only a few - I do not expect that we shall be able to reach an early decision on the material you have sent me. However, once we have been able to obtain Executive Council's reaction I will telegraph as you request. With moderate good fortune this can be expected to be around the end of November. Meanwhile I am taking the opportunity of the Argentine Albatross visit of 16th November to send you this acknowledgment of your letter.

See 429

(J. A. Jones)

G. F. Kinnear, Esq., C.B.E.,  
Foreign and Commonwealth Office,  
(S.A. & I.C. Dept.),  
London, S.W.1.

CB

C.S.,

413a

Firstly, points raised in Exco at meeting No. 10/71 (26th July 1971).

- Clause 2. No change in the 50 years exclusive concession has been won by F.C.O. Our earlier willingness to accept such a period would weaken any case they tried to make.
- Clause 3. No change in the wording is mentioned. The comment regarding Clause 2 applies here also. However, in the event of other interested parties coming along, the fact of their interest can be used in any further negotiation with A.I.L.
- Clause 11. There is no urgency about profit taxation arrangements which, in any case, are just as much a matter between Inland Revenue and F.I.G. as between F.I.G. and A.I.L. The proposed arrangement would be very useful to us as an interim measure, while the situation with regard to profits that might be regarded as arising in the Colony is taking shape.
- Clause 15. has been well considered by the Legal Adviser. The reference to a tax on oil has been removed which is significant for I know Mr. Pery was particularly concerned about this. As A.I.L. will import more oil than all other users put together, any future tax on it might be regarded as having a "discriminatory effect" upon them. A fertile breeding ground for some future Legal wizards to exploit !

Secondly, changes agreed by F.C.O. and A.I.L.

424-8

I attach a copy of the Draft Heads considered by Exco at its meeting on 26th July, amended according to the F.C.O. paper.

- Clause 8. there seems to be an error on the F.C.O. paper. The proposed extension to five years replaces the existing period of three years after the licence is first granted.
- Clause 9 (v) The F.C.O. reference to 1960 must surely be wrong. 1969 seems more appropriate and I have inserted an amendment based on the Exco minute on meeting 7/69 (p 192 in 0004/111).

Thirdly, personal comments.

I regard the exclusiveness of the licence to be the plum that A.I.L. want. They would be content to pay the minimum royalty of £2500 (Clause 9 (i)) even if there was no production at all, but would not risk losing the exclusive licence by allowing nil or inadequate production to go on for too long. As I see it, under the changed wording of Clause 8 they must, therefore, reach 4000 tons by 1980 or run the risk. I arrive at this date thus -

Royalty payments must commence not later than 1975 (Clause 9 i)  
a licence must therefore be taken out not later than 1975, say  
1st January 1975.

Government reserves the right to reconsider the exclusivity of  
the licence should production fail to reach 4000 tons a year  
over two years as from the end of five years after the granting  
of a licence (Clause 8)

Licence must be issued in		1985
Five years of grace,	up to	31.12.79
4000 production target must be reached		1980 and 1981

*1980 is a long way off, but £2500 p.a. is  
assumed not later than 1975.*

*L.E.*

*10.11.71*

FALKLAND ISLANDSDRAFT HEADS OF AGREEMENT

1. ~~Alginate Industries welcome the co-operation and assistance of the Falkland Islands Government in their venture to provide a kelp supply base at Port Stanley.~~
2. Until the Company is able fully to exploit all the waters of the Colony it is accepted that an initial exclusive concession for fifty years should be limited to the coastline of the East Falkland and adjoining Islands. i.e. to an area South of a line between points (A) 51 degrees 32 minutes South 57 degrees 41 minutes West and (B) 52 degrees 06 minutes South 60 degrees 11 minutes West.
3. Should the Company eventually wish to apply for a larger exclusive concession, the Falkland Islands Government would be prepared to negotiate. In the event of any other operator applying for concessions in the uncommitted area, with a view to harvesting Kelp for export on a commercial scale, the Company would be given the opportunity of first refusal.
4. The Company would take into account the fact that, in certain instances, kelp beds are an aid to navigation and play an important part in the preservation of wild life.
5. ~~It is understood by the Company that kelp could be harvested by any individual, or group of individuals, resident in the Falkland Islands, for use only within the Islands.~~
6. ~~The Company would be required to carry on all its harvesting operations in a safe, orderly, skilful, efficient and workmanlike manner and not to cause danger of damage to persons lawfully using or being on or in the foreshore or the territorial waters of the Colony.~~
7. ~~The Company would be required to take due and proper precautions for the safety of all persons employed by it in harvesting operations.~~
8. The Falkland Islands Government would grant the Company an exclusive Licence, at a nominal fee, <sup>of £1</sup> to collect kelp or any species within the concession areas during the 50 year term of the Agreement. The Falkland Islands Government would retain the right to reconsider the exclusivity of the Licence should the Company fail to produce the annual quantities of dried milled kelp specified below:

*five*  
An average of 4,000 tons a year over two years as from the end of three years after the Licence is first granted.

An average of 8,000 tons a year over two years as from the end of ten years after the Licence is first granted.

9. ~~The proposed licence fee of £1,000 having at the recommendation of the Valuation Department of the Inland Revenue been merged with the royalty payments proposed in the previous Heads of Agreement, the Company ~~would~~ to pay to the Falkland Islands Government the following royalties ~~upon its production of dried milled kelp at Port Stanley.~~ *on export*~~

(i) ~~A royalty to be paid by the Company to the Falkland Islands Government of £1.90 for every metric ton of dried milled kelp subject to a minimum annual payment of £2,500.~~

(ii) ~~The annual payment to be made not later than February 1st in each year and to be based on the amount of dried milled kelp~~

*after the date of export from the Falkland Islands*

*30 days*  
~~produced~~

*(shall)*  
~~(draft)~~

*draft*

~~produced in the Falklands during the 12 months ending on December 31st the previous year.~~

(iii) ~~The~~ Royalty payments <sup>shall</sup> to commence in the year following that in which more than 1,000 metric tons of dried milled kelp are produced, or on ~~February~~ <sup>January</sup> 1st 1975, whichever is the earlier. (1st Jan - 31st Dec)

(iv) Whenever the annual <sup>production</sup> production of dried milled kelp exceeds 8,000 metric tons an additional royalty of 20p to be paid for every metric ton in excess of 8,000. (1st Jan - 31st Dec)

(v) The royalty of £1.90 and the additional royalty of 20p to be reviewed every 5 years i.e. ~~for every period of 5 years commencing on the 6th, 11th and 16th year and so on.~~ The new royalties will bear the same relation to the initial royalties as the average Wholesale Price Index numbers of output (Chemical and Allied Industries - total sales) issued by the Statistics Division of the Department of Trade and Industry for the year ending on June 30th prior to the review date bear to similar figures for the year ending on 30th June prior to the date the first royalty becomes payable.

(vi) In the event of the wholesale price index numbers ceasing to be issued or being issued in a different form and in the event further of a dispute arising as to what the index numbers for review would be, the question of what the index numbers would be if they had continued to be issued to be submitted for arbitration by a single arbitrator appointed by the President for the time being of the Institute of Arbitrators.

10. In advance of the main Agreement, the Company wishes to collect, dry and mill relatively small quantities of lessonia seaweed. The Company offers a royalty of £1.90 on each metric ton of dried milled lessonia produced, payable on 1st February of each year, without minimum payment or minimum quantity.
11. Profits subject to Falkland Islands taxation would be expressed in terms of a percentage of the annual production costs, including overheads and plant depreciation, as from the date when the licence became payable. These costs would not however, include any write-off of expenditure not represented by fixed assets (e.g. consultants fees, costs of charting weed beds etc.), incurred in the initial stages and originally charged to a development or similar account.
12. In respect of power requirements, every effort would be made to provide for the pilot plant up to a loading of 100 kW, although it would be understood that the load may have to be restricted during peak periods.
13. It is understood that the Company would be responsible for providing their own water supply at the unit stage, and subject to any previous water extraction grants, would be allowed the use of water from the Murrell River, or any other suitable supply in the area, free of tariff. Likewise, it is agreed to allow a supply pipe from the source to the site of the factory to be laid on the surface of the Camp provided that adequate crossing places, to be determined by agreement, were provided for. No rental would be charged for ~~the~~ land taken up by the supply pipe. (any F. I. G.)
14. Equality of treatment with other commercial undertakings would be guaranteed in respect of port dues and harbour rights.
15. The Falkland Islands Government shall not during the ~~50~~ term of this agreement levy any new tax or impost, ~~such as a fuel tax or export duty,~~ which ~~might have an adverse or discriminatory effect upon the Company's operations in the Falkland Islands.~~

i.e. for the period beginning 1st January 1980 or 1st January five years after the year (Jan-Dec) in which production first reaches 1000 metric tons of dried milled kelp, whichever is the earliest, and at every period of five years thereafter

16. The Company would appreciate all possible support from the Falkland Islands Government in its present negotiations with the Ministry of Defence and the Navy Department in connection with leasing the Canber Site and oil storage facilities, this site and these facilities being essential to the Company's proposed operations.
17. These present draft Heads of Agreement, dated 14th May 1971, replace and cancel the Heads of Agreement submitted to Sir Cosmo Haskard by Mr. R. R. Merton on August 7th 1969, and referred to in part in the Annexure to Mr. A. C. W. Lee's letter to Mr. R. R. Merton dated April 6th 1970.

The Company looks forward to the formal acceptance of these Heads of Agreement by the Falkland Islands Government, so that the Agreement incorporating these terms and conditions may be signed at an early date.

11th November

71

Alginat Industries Limited

421  
 In my letter of the 6th November which will reach you by the same bag as this letter I said that it would take us some time before we would be in a position to provide a definitive answer to the points raised in your letter of the 21st October and its attachment.

2. Closer scrutiny of the attachment to your letter reveals two points which need clarification. At letter B), referring to clause 8, the words "two years" appear in the penultimate line. The most recent draft Heads of Agreement which we have considered here refer to "three years". And at letter D), at the end of the last line but two, the date "1960" appears. This would appear to be a misprint for "1969". I shall be grateful if you will telegraph to me confirmation that my interpretation in connection with C) and D) is correct.

(J. A. Jones)

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

JB

*S/C Rumbert on 17/11 J 12/11*

RESTRICTED

*BU 17.11.71*

I mentioned to you recently on the telephone that I had received a letter from the F.C.O. containing the results of the negotiations with Alginate Industries Limited on the draft Heads of Agreement. As is usually the case the Company presses for an immediate decision upon the proposals but, as you can see from G.T's initial comments at pp.422-3 and the letter at p.429, there were one or two matters of detail upon which we needed to go back to the F.C.O. As this in any case provides opportunity to deal with this matter without rushing it I am submitting the file to you to see it at an early stage and in case you have any particular comments to make before the task of drafting the necessary Executive Council Memorandum is begun.

2. In another connection I have written to Robins of the F.C.O. asking him to obtain the agreement of the Ministry of Defence to my interpretation of an earlier letter received from them that the cut-off date for our oil supplies being provided by RFA tanker, originally set at mid-March, 1973, is now subject to negotiation due to the slipping of the target date for A.I.L. to embark upon significant production of dried, milled kelp. The cut-off date originally proposed by M.O.D. pre-supposed the attainment by A.I.L. of its production dates.

*J.A.J.*  
18.11.71

C.S.

We authorised the F.C.O. to negotiate on our behalf so it is too late now to complain but I think that when Mr. Merton came back after the meeting he should have been shown the door. Mr. Gleadell has quite rightly made the point about exclusivity being the goal Alginates are after and to a large extent this they have gained - £2,500 a year is a cheap way to keep out competitors in this business. I am not impressed and would have preferred to carry out the negotiations myself.

*E.G.L.*  
19 November 1971

*L.S.*  
Draft attached.

*E.G.L.*  
24/11

*L.S.*  
22.11.71

*Y.F.*  
I have no comments. The crucial lines in the last sentence & Alginates are in the fortunate position of having cornered the

information market as well as the know-how & sales market. Moreover we nor anyone else except, probably, the American Kelp Co. is in a position to estimate precisely when AIL's European supplies of Kelp reach an exhaustion point back that they have to turn to our supplies. Without this key piece of information our bargaining position was bound to be poor.

J  
1/24/11

# CONFIDENTIAL

## EXECUTIVE COUNCIL

No. 65/71

### ALGINATE INDUSTRIES LIMITED

Memorandum by the Colonial Treasurer .

This Company seeks to obtain an exclusive concession to harvest kelp around the coast of the Colony. Negotiations have been going on for a number of years and the state of affairs when Council last considered the matter in July 1971 (meeting No. 10/71) was set out in the draft heads of agreement attached to Memorandum 37/71.

2. The minutes of this meeting of Council, insofar as they relate to Alginate Industries Ltd., are reproduced below for the benefit of members who have not previously taken part in the discussions:

"The Colonial Secretary, who was present at discussions held between the Ministry of Defence, the Foreign and Commonwealth Office, Alginate Industries Ltd. and the Falkland Islands Company Ltd. in London in June 1970, introduced the subject. After deliberation, Members advised that:

- (i) the combined licence and royalty proposals provisionally agreed between the Valuation Office and the Company should be accepted;
- (ii) the figure of £1.90 for the royalty per metric ton and for interim use with regard to Lessonia was acceptable;
- (iii) in the draft Heads of Agreement -
  - (a) Clause 2: the 50 years exclusive concession was excessive, and a system of review periods should if possible be negotiated;
  - (b) Clause 3: the exclusion of future competitors from other areas of local waters would be against the Colony's interest;
  - (c) Clauses 5 to 7: are covered in the Kelp Harvesting Control Ordinance and should therefore be regarded as superfluous;
  - (d) Clause 8: the Kelp Harvesting Control Ordinance should be amended to include the species of kelp known as Durvillea;
  - (e) Clauses 11 and 15: further advice should be sought from the F.C.O. on these clauses which deal with tax proposals;
- (iv) Government should accept the offer by the Foreign and Commonwealth Office to negotiate with the

/Company on its behalf

Company on its behalf, in particular with regard to the matters at sub-paragraph (iii) (a) - (e)."

3. Correspondence took place between the Foreign and Commonwealth Office and the Company, and a meeting was later arranged. The annexure to the paper sets out revised draft heads of agreement resulting from this correspondence and meeting.

4 According to the Foreign and Commonwealth Office the negotiations were difficult: the negotiators found themselves compelled to make concessions in order to prevent a complete breakdown. However, all points on the new version have now been agreed between the parties.

5. Changes from the old to the new version, and background notes, are dealt with in the following paragraphs.

Clause 2 The F.C.O. has been unable to reduce the period of 50 years. Our earlier willingness to accept such a period was a disadvantage in the negotiations.

Clause 3 A.I.L. have held their claim to first refusal of further harvesting areas on the exclusive licence basis. However, if there are other interested parties the Colony's bargaining position (i.e. for increased royalties etc.) will be infinitely stronger.

Clause 8 The nominal annual licence fee of £1 was agreed between the parties. Agreement was also reached after protracted discussions that the period after which an annual minimum of 4,000 tons should be produced in order to retain the exclusive licence concession should be five years from the date of the first granting of a licence. In the July 1971 version of the draft heads of agreement this period was three years.

Clause 9 (iii) Instead of the annual payment of royalty being made not later than 1st February each year based on the amount of dried milled kelp produced during the previous year, it was agreed that payment of royalty would be made 30 days after export from the Colony was effected. This will mean that we should receive royalty payments earlier.

Clause 9 (v) The F.C.O. point out that although the royalty of £1.90 per ton was fixed by reference to the 1970 prices the Company insists that the review date should be that contained in the original draft heads of agreement (1969), i.e. 5 years from the date when production first reaches 1,000 tons.

/Clause 15

Clause 13

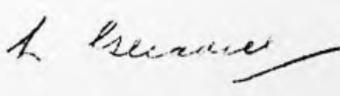
The words "Falkland Islands Government" have been inserted before "land". If the pipe line crosses any private land it will be for the Company to negotiate a wayleave with the owner.

Clause 15

The F.C.O.'s Legal Adviser considered the July version to be too wide and difficulties of interpretation could arise. Agreement was reached on the revised version. It is difficult to say how much importance should be attached to this clause, but the Company's acceptance of deleting specific reference to a fuel tax or export duty removes restricting elements.

6. Alginatc Industries Ltd. are prepared to sign this version of the draft heads of agreement (the actual wording may differ in detail for the amendments have been made here to illustrate changes, and there are various ways of saying the same thing).

7. It has been obvious to all who have been involved in these discussions since 1969 that what Alginatc Industries are after is the exclusive licence. Government, for its part, has shown willingness to grant such a licence subject to assurances that the kelp beds will be exploited soon and to the benefit of the Colony. Subject to the approval of Council that the draft heads should be accepted as a firm agreement the position with regard to financial benefit to the Colony is that the Company is required to be producing 4000 tons annually not later than 1980, and will be paying the small (by comparison) minimum royalty in 1975. This may appear to be a rather longer period of waiting than members have hoped for, but from the tone of the F.C.O. account of discussions it is the best arrangement that could be obtained. The market for alginates is the key to the situation and whether or not full scale operations are hurried along, or delayed to the limit, or even abandoned, seems to rest entirely on this somewhat obscure situation.



(L. C. Gleadell)  
COLONIAL TREASURER

Ref: 0004/IV

26th November 1971.

CB

FALKLAND ISLANDSDRAFT HEADS OF AGREEMENT

1. Deleted
2. Until the Company is able fully to exploit all the waters of the Colony it is accepted that an initial exclusive concession for fifty years should be limited to the coastline of the East Falkland and adjoining Islands, i.e. to an area South of a line between points (A) 51 degrees 32 minutes South 57 degrees 41 minutes West and (B) 52 degrees 06 minutes South 60 degrees 11 minutes West.
3. Should the Company eventually wish to apply for a larger exclusive concession, the Falkland Islands Government would be prepared to negotiate. In the event of any other operator applying for concessions in the uncommitted area, with a view to harvesting Kelp for export on a commercial scale, the Company would be given the opportunity of a first refusal.
4. The Company would take into account the fact that, in certain instances, kelp beds are an aid to navigation and play an important part in the preservation of wild life.
5. Deleted
6. Deleted
7. Deleted
8. The Falkland Islands Government would grant the Company an exclusive Licence, at a nominal annual fee of £1, to collect kelp of any species within the concession areas during the 50 year term of the Agreement. The Falkland Islands Government would retain the right to reconsider the exclusivity of the Licence should the Company fail to produce the annual quantities of dried milled kelp specified below:  
  
An average of 4,000 tons a year over two years as from the end of five years after the Licence is first granted.  
  
An average of 8,000 tons a year over two years as from the end of ten years after the Licence is first granted.
9. The Company to pay to the Falkland Islands Government the following royalties on exports of dried milled kelp.
  - (i) £1.90 for every metric ton subject to a minimum annual payment of £2,500.
  - (ii) Payment shall be made not later than 30 days after the date of export from the

Falkland Islands.

- (iii) Royalty payments shall commence in the year (1st Jan. - 31st Dec.) following that in which more than 1,000 metric tons of dried milled kelp are produced, or on January 1st 1975, whichever is the earlier.
- (iv) Whenever the annual (1st Jan. - 31st Dec.) production of dried milled kelp exceeds 8,000 metric tons an additional royalty of 20p to be paid for every metric ton in excess of 8,000
- (v) The royalty of £1.90 and the additional royalty of 20p to be reviewed every 5 years i.e. for the period beginning 1st January 1980 or 1st January five years after the year (Jan. - Dec.) in which production first reaches 1,000 metric tons of dried milled kelp, whichever is the earlier, and at every period of five years thereafter. The new royalties will bear the same relation to the initial royalties as the average Wholesale Price Index numbers of output (Chemical and Allied Industries - total sales) issued by the Statistics Division of the Department of Trade and Industry for the year ending on June 30th prior to the review date bear to similar figures for the year ending on 30th June prior to the date the first royalty becomes payable.
- (vi) In the event of the wholesale price index numbers ceasing to be issued or being issued in a different form and in the event further of a dispute arising as to what the index numbers for review would be, the question of what the index numbers would be if they had continued to be issued to be submitted for arbitration by a single arbitrator appointed by the President for the time being of the Institute of Arbitrators.

- 10. In advance of the main Agreement, the Company wishes to collect, dry and mill relatively small quantities of lessonia seaweed. The Company offers a royalty of £1.90 on each metric ton of dried milled lessonia produced, payable on 1st February of each year, without minimum payment or minimum quantity.
- 11. Deleted
- 12. Deleted
- 13. It is understood that the Company would be responsible for providing their own water supply at

/the unit stage

the unit stage, and subject to any previous water extraction grants, would be allowed the use of water from the Murrel River, or any other suitable supply in the area, free of tariff. Likewise, it is agreed to allow a supply pipe from the source to the site of the factory to be laid on the surface of the Camp provided that adequate crossing places, to be determined by agreement, are provided for. No rental would be charged for any F.I.G. land taken up by the supply pipe.

14. Equality of treatment with other commercial undertakings would be guaranteed in respect of port dues and harbour rights.
15. The Falkland Islands Government shall not during the term of this agreement levy any new tax or impost which has a discriminatory effect upon the Company's operations in the Falkland Islands.
16. The Company would appreciate all possible support from the Falkland Islands Government in its present negotiations with the Ministry of Defence and the Navy Department in connection with leasing the Camber Site and oil storage facilities, this site and these facilities being essential to the Company's proposed operations.
17. These present Heads of Agreement, dated 14th May 1971, replace and cancel the Heads of Agreement submitted to Sir Cosmo Haskard by Mr. R. R. Merton on August 7th 1969, and referred to in part in the Annexure to Mr. A. C. W. Lee's letter to Mr. R. R. Merton dated April 6th 1970.

The Company looks forward to the formal acceptance of these Heads of Agreement by the Falkland Islands Government, so that the Agreement incorporating these terms and conditions may be signed at an early date.

Bu 20.12.71.

(ExCo)

MINUTES OF EXECUTIVE COUNCIL MEETING  
NO. 16/71 HELD ON 21st DECEMBER 1971.

432-7

0004/IV

6. ALGINATE INDUSTRIES LIMITED (Memo 65/71)

The Colonial Treasurer outlined the latest position and referred Members to the draft Heads of Agreement which formed Annexure 1 of the Memorandum 65/71.

After giving detailed consideration to the matter Council advised that the Foreign and Commonwealth Office should be asked whether under the terms of the draft Agreement it would be possible to compel Alginat Industries Limited to take out a licence immediately the Agreement was signed, otherwise it was felt that under Clauses 8 and 9 the Company could pay to maintain the exclusiveness of the licence without exploiting the concession. The rest of the Agreement was considered satisfactory.

*Rowing*

CLERK TO COUNCIL

24th December, 1971.

8

ALGINATE INDUSTRIES LTD.

We have run across what appears to be a considerable snag in connection with the fresh Heads of Agreement sent to us under cover of your letter. It is with regard to the clauses dealing with the terms upon which maintenance of the exclusiveness of the licence depends and the clause relating to royalties.

2. It would appear that, while sub-clause (iii) of the clause (clause 9) dealing with royalties specifies a date by which royalty payments must begin, the clause (clause 8) dealing with the maintenance of the exclusiveness of the licence does not oblige the company to seek a licence immediately upon conclusion of the Agreement, thus enabling the company, if it wishes, to pay royalty at the rate of £2,500 per year without exploiting the concession.

3. I assume that the spirit of the negotiations on this matter envisages the company applying for a licence immediately the Heads of Agreement are concluded but it does appear that the position would be more satisfactory if clause 8 began with the words "the Company will apply for and the Falkland Islands Government will grant, immediately upon the conclusion of this agreement, an exclusive licence ..."

4. I hope this is not hair-splitting. Throughout the negotiations with Alginates Industries there has been a fear on the part of our government that the company's object could be to obtain and freeze for as long as suited it an exclusive concession to our kelp, thus preventing its exploitation by competitors. From the point of view of the possibility of government having to defend the Agreement in the Legislature I believe it is important that the point raised in this letter be resolved. The rest of the terms of the Agreement are acceptable and provided this point can be resolved the Agreement can be implemented. However, as things stand at the moment, we shall not be able to give you a final answer whether we accept the

524462

/Heads....

444

2.

Heads of Agreement until the point I have made has been resolved.

(J. A. Jones)

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

BA

DECODE.

441.

TELEGRAM SENT.

From GOVERNOR to SECRETARY OF STATE

Despatched: 29.12.71 Time: 1445 Received: Time:

No. 433

438

418 Addressed FCO as telegram number 433 of 29th December. Your telegram 313 of 20th December Alginates. An important query not suitable for telegraphic elucidation has arisen from consideration of draft enclosed with yrlet HGF 7/3 of 21st October. Query is embodied in letter being despatched airwise by bag on 11th January

439

LEWIS

PL: HT

By 26.2.72.  
(mail)