

The Falkland Islands Company considers Lord Shackleton's Economic Survey of the Falkland Islands to be a constructive and imaginative Report which is of major significance for the British future of the Colony. The Company intends to take the lead in implementing the Report and will publish its proposals as soon as possible. Meanwhile, it considers that there should be placed on record its immediate views on the Report and these are outlined in the attached paper.

The references to the Shackleton Survey are to Volume 1.

<u>Shackleton Survey</u>	<u>F.I.C. Paper</u>	
	<u>Page.</u>	
Chapter 3	THE ECONOMY	1
	Structure of the Economy	3
	National Income	3
	External flow of funds	4
	Savings	9
	Private sector investment	10
	Obstacles to private sector investment	11
	Investment Incentives	11
	U.K. Exchange Control regulations	12
Chapter 4	Labour supply	12
	Wages and salaries and cost of living	12
	Employer Organisations	12
Chapter 5	The Camp	12
Chapter 6	AGRICULTURE	13
Chapter 8	MINERAL RESOURCES	18
Chapter 10	TRANSPORT AND COMMUNICATIONS	18
Chapter 11	DISTRIBUTION AND SERVICES	19
	Y.P.F. Agreement	19
	Banking	20
Chapter 14	SOCIAL INFRASTRUCTURE	21
Chapter 15	GOVERNMENT FINANCES AND PUBLIC SERVICES	
	Tax Haven	21
Chapter 16	THE FALKLAND ISLANDS COMPANY	22
Chapter 13	PUBLIC UTILITIES	23

COMMENTS BY THE FALKLAND ISLANDS CO.LTD.

Chapter 3.

In a small community such as exists in the Falkland Islands it is inevitable that the Company which dominates most forms of trading outside sheepfarming should be the target for criticism. The movement of people and goods, insurance, banking and retailing are all activities in which the Company is either dominant or has no competition. In retailing the Company has no competition for goods which, because of the size of the market, the slow rate of turnover and the risk of obsolescence, are relatively unprofitable to market. Other services which are vital to the Colony have become the sole responsibility of the Falkland Islands Company. If these are to be termed monopoly trading conditions then the Colony has the distinction of benefiting from monopoly services provided by an organisation which has not sought such a condition of trade nor derives commercial advantage from it.

The Company has been frank and open with the Shackleton Team and it regrets that a more positive attitude was not adopted in the Report. The Report is an authoritative document and an opportunity has been lost for an assurance to be given to the Islanders that the "monopoly" conditions are exercised in their interests. Instead, implied criticism is made and normally any praise is qualified. An example of this is on page 214, "External sea freight service" -

"FIC does not follow a policy of maximising profits on this operation. This is borne out by the generally low profits of Darwin Shipping Ltd. and the fact that freight charges as a proportion of landed costs have tended to decline over the last ten years. However, counterbalancing this trend, FIC's handling charges and their London Office Commission have both increased, the latter from $2\frac{1}{2}\%$ to 5% of total landed cost."

The reference to increased handling charges by F.I.C. implies that we have increased our profit margin. In fact the Company recharges these costs at cost on the basis that its strenuous efforts to control them benefit it to a major extent (46% of wool production) in any event. The reference to

../

commission is misleading. Every sheepfarmer will know that commissions were rationalised and that overall there was a reduction. However, errors such as this must be regarded as inevitable in such a wide ranging report prepared within a limited time scale and published, with one notable exception, without final reference to a major source of information, F.I.C.

Still on the subject of monopoly, is it not strange that the Report does not mention that in response to uncertainty in the Colony in 1972 following the take-over of the Company the monopoly and semi-monopoly interests were offered to the Sheepfarming industry and people of the Colony at a figure below tangible asset value? The offer must be unique in that the monopolist was prepared to accept a minority interest (46%) in the new organisation. Is not the rejection of the offer the most effective endorsement of the Company's policies that could exist?

The Company is very mindful of its responsibility in areas of trading which it, perforce, dominates. It welcomes constructive criticism and would gladly participate in any discussions which could lead to establishing that the public interest is being safeguarded. It is paradoxical that the most effective method by which this could be achieved would be for the services to be operated by Government with the one powerful trading organisation in the Colony, F.I.C., possessing the necessary expertise and financial resources, able to intervene should the standards of services and their cost be contrary to public interest. However, the services require more continuity of direction and more commercial motive than is obtainable from Government sources.

It is no less paradoxical that the representation on the F.I.C. Board of representatives of two independent farms is in the public interest. Far from bringing greater monopoly power to the F.I.C. Board their presence means that decisions are, if not necessarily in the public interest, at least in the interests of the sheepfarming industry as a whole. As far as protection of the public interest is concerned this stems from the deep sense of trusteeship which is assumed by every F.I.C. Director but this of course is de facto and not de jure. We do not believe, however,

.../

that Government representation is the answer. Let Government govern and if it is considered that F.I.C. action is against the interests of the public then let them say so, with discussions taking place - under the threat of legislation if necessary. There is no area of trading in which F.I.C. seeks exclusivity.

In the interests of accuracy and the need to use the Shackleton Report as a means to progress in the Colony without the divisiveness which would be created otherwise, the following detailed comments on the report are made. They should not diminish, however, the effect and nature of what has been a major contribution to the British future of the Falkland Islands. The Report is welcomed by the Company as a diligent, imaginative and sensitive survey, and must be regarded as carrying greater authority and understanding of the people and trade of the Colony than any of the reports which have proliferated over the past decade.

Page 19.

Falkland Islands Co.Ltd.

F.I.C. has no interests other than those of the Falklands. It is true that for a period of 10 years (1962-1972) the Company had successfully diversified in the U.K. But these interests were always subordinate to the Islands' interests; and indeed the motivation was to strengthen the Colony's economic structure, not to diminish the Company's interest there.

Page 21.

The figures of National Income are particularly interesting as there is a dearth of economic statistics for the Colony. The figures are not, however, as accurate as they could have been if the Government figures had been married to F.I.C. figures. It is clear that the income of Provident Funds through Company contributions and investment income has been omitted and the very substantial inflow of personal and corporate investment income from U.K. and elsewhere understated. However, what we regard as the most serious error is the method of calculation of investment and property to abroad. This is dealt with in greater detail in the succeeding chapter. Incidentally the note on page 25 that one year's production of wool does not reflect on profits until the next or even succeeding accounting years is incorrect.

Page 25. External flow of funds.

The distributions of F.I.C. in the 5 year period 1970-1974 represent 94.4% of profit not 96%. The Shackleton Report calculation is based on F.I.C. profit whereas it should be on consolidated profit. This particular period is an exceptional one, inasmuch as dividend policy is related to avoiding action against a take-over in the 2 earlier years and following normal group policy in the latter years. It is normal for group control purposes for post-tax profit of Subsidiaries to be paid over to the controlling company. This ensures that cash is used most effectively within the Group. It is only technically described as a dividend and it must not be assumed that it is lost to the Falkland Islands. In these circumstances it is wholly unrealistic to base any assumptions on withdrawal of funds on this figure.

It is stated that 9 Companies including most of the larger Companies distributed 59% of post-tax profit and the assumption is made that 90% of aggregated after-tax profits are distributed. Why is an assumption made when the F.I.C. figures are known and, presumably, also those of the 9 Companies? Why not an exact figure?

The report describes the F.I.C. as larger, not more profitable. Given a constant profit per kilo of wool the nearest we can get to the 90% figure in the report is 83% by excluding the 4 largest Companies which must be wrong. In fact the percentage is almost certainly below 80% even including the untypical F.I.C. figures. One cannot escape the impression that the 90% figure is an inflated one made for emotive effect. To put the matter in perspective for every £100 of gross revenue of the 2 largest independent farms £5.44 went to shareholders, £35.82 to employees and £13.95 in tax.

The references to taxation on pages 26/27 are misleading. The exact tax benefit to the U.K. Exchequer from U.K. Companies, if any, can be determined with precision. The effective rates of tax have not always shown a margin in favour of the United Kingdom. Recently the more generous U.K. tax allowances would, if fully claimed, normally bring the effective U.K. rate down to or close to the F.Is. rate. In 1972, the last independent year of F.I.C., the assessments to U.K. Corporation and Falkland Islands Tax were almost identical. This has always been the objective of U.K. Companies - to maximise their payments to the Falklands revenue.

...../

It is appropriate at this stage to state that it was the initiative of the U.K. Companies which brought about the ending in 1962 of the drain of funds from the Colony to the U.K. by way of taxation of profit. Between 1951 and 1961 inclusive it is estimated that 34% of tax on trading profit of F.I.C. went to the F.Is. Treasury. In the subsequent 13 years the figure rose above 70%. This result, which has been of immense benefit to the Colony and without which the Islands would be a Grant-in-Aid Colony now, was achieved by Government accepting proposals for tax reform submitted by the U.K. Companies. It was in this spirit that F.I.C. in 1963 stopped the flow of funds to the U.K. from shipping operations by forming a locally registered Company. A subsequent offer of advice by F.I.C. to divert further tax to the Colony was not accepted. Indeed, the Government official concerned later denied that such an offer had been made. To our mind this illustrates the long term value of having dedicated Islanders in key positions in Government, free of prejudice and with a long term interest in the Colony. We are fortunate in having such a person in the Financial Secretary.

The report on page 26 and 27 gives every indication of having been prepared hastily and without proper analysis or research. For example, given an alteration in F.I./U.K. tax ratios from 34.66 to 71.29, it is meaningless to talk of estimated figures per annum over the 24 year period.

Again, the major changes in taxation treatment of dividends over the 24 year period merits closer examination if meaningful figures are to be published. In the first years of the period no additional standard rate tax was payable on dividends paid by F.I.C. and shareholders not subject to the standard rate could only reclaim up to the net U.K. rate of tax. In 1957 the status of Overseas Trade Corporation was established and U.K. tax was payable only on remittances of overseas trading profit. This substantial ^{fillip}/to overseas trade and investment was brought to an end in 1965 by a new system which was positively harmful to Overseas Companies. A new imputation system came into force in 1973.

Given these factors and inaccuracies in figures in the Report we have come to the conclusion that no reliance can be placed on the findings in this section of the report.

Let us relate the 1974 estimates on all Company activity on pages 27 and 29

...../

to the actual figures for the 3 largest Companies.

	Report estimate <u>All Companies</u>	Actual <u>3 largest Companies</u>
	£	£
"Outflow of Company Funds" (per Report definition)	480,000	319,755
Gain to U.K. tax authorities	150,000	{ 20,776 Direct { 7,413 Assessment { Irrecoverable { A.C.T.

The following points should be noted -

- (1) No additional taxation arises on transfer of profit from F.I.C. to its holding Company.
- (2) The retained profit of Charringtons in 1974 exceeded the sum transferred from F.I.C.

The U.K. Companies have constantly stressed that action to prevent loss of revenue to the U.K. is in the hands of the F.I.s. Government. As far as the U.K. Companies are concerned diversion has more or less been achieved although there are still areas which can yield useful additional taxable revenue to the Colony. As far as overseas shareholders of locally registered Companies are concerned they do indeed probably bear around 35% in U.K. on dividends received from the Colony. Could this not be diverted by introducing a with-holding tax, which would rank for credit against U.K. tax under 1(b) (1a) of the Double Taxation Agreement of 1968?

The Double Taxation Agreement is particularly favourable to the Colony, because the profits of the U.K. based Companies are initially assessed to tax in the Colony and only the excess, if any, of the U.K. assessment over this amount is payable in the U.K. On the other hand, the flow of funds from the U.K. to the Falklands is principally interest on British Government Stocks which is wholly exempt from tax in the U.K.

In table 9 the figures for "net investment + property income to abroad" are identical with those of table 11 and therefore are to be regarded as representing dividends and unappropriated profits remitted abroad. On the stated basis of calculation, if all the U.K. Companies were registered in the Colony, their unappropriated profit would increase the Gross National Product, even though there is no difference in principle in the present treatment of retained profit by Companies registered in the U.K. or in the Colony. Normally retained profit is invested in the U.K. until required in the Colony.

There is a further apparent discrepancy on pages 26 and 27. The estimate of after tax profit deduction of 90% has been applied to the £480,000 which is the estimate of unappropriated profits remitted abroad plus dividends.

However, it is in the basis of calculation of the outflow of Company funds to which we take exception. It is stated that the figure of £5,046,200 represents net profit, plus depreciation, less F.I. Tax less Capital investment which is reasonable as far as it goes. It does not go far enough, however. Over the period of 24 years there are increased demands for working capital, with F.I.C. alone increasing its store stocks by £628,000 between 1950 and 1975. We cannot accept that increases in the value of stores and materials held in the Colony represent an outflow of funds from the Colony. Nor can we accept that U.K. taxation on profit, which we wished to pay in the Colony and over which we had no control, should be included in a figure of profit taken out of the Country. The statement that given the choice between local re-investment of after-tax profits and investment in the U.K., the Companies have chosen the latter option is both wholly untrue and unfair. If the statement were amended to read that given the choice between unprofitable investment in the Colony and profitable investment elsewhere we have chosen the latter option it would be fair comment. Unwise investment in the Colony would have brought no advantages with it. Indeed, the money would have been wasted and lost to the Colony inextricably. The fiasco of the freezer project at Ajax Bay is an example of how the absence of commercial motives can dissipate funds. If investment per se is to be the criterion then we shall quickly become a Grant-in-aid Colony. Even if the figure of £5.046 m. was true by definition it is only £210,000 per annum. Why not relate this to capital employed or the large untaxed income which flows into the Colony from the U.K. each year. If ^{philatelic income is excluded} the report figures of ^{from} Government Investment and Philatelic income it gives an annual average of £86,000. To this must be added the amount of income credited to Savings Bank subscribers from external sources and the whole of the personal and corporate external income of the Colony. Would that not give a different picture? But then this is investment income and is the reward for saving or, if you wish, deferring consumption. Is that not, however, what dividends are all about?

..../

Actual figures relating to the 5 United Kingdom registered Companies which represent 68% of the sheepfarming interests :-

	<u>1951 - 1974 inclusive,</u>	
	<u>Aggregate</u> £	<u>Yearly Average</u> £
Trading profit	6,654,911	277,288
Deduct: Falkland Islands tax	1,856,736	77,364
	<hr/>	<hr/>
	4,798,175	199,924
Add: depreciation	1,401,867	58,411
	<hr/>	<hr/>
	6,200,042	258,335
Deduct: Capital expenditure	1,857,750	77,406
	<hr/>	<hr/>
	4,342,292	180,929
Deduct: United Kingdom tax (1)	1,175,026	48,959
	<hr/>	<hr/>
	3,167,266	131,970
Deduct: additional amount required for holding of stores and materials	676,727	28,197
	<hr/>	<hr/>
	2,490,539	103,773
Deduct: dividends from Falkland Islands sources	1,916,389	79,850
	<hr/>	<hr/>
AMOUNT RETAINED IN RESERVES	£ 574,150	£23,923
	<hr/>	<hr/>

(1) After deducting estimated U.K. taxation on investment income.

It is stated that the net outflow of investment and property income is smaller because of inflows from F.I. Government investments abroad and the true gap is represented by the difference between G.D.P. and G.N.P. This is clearly wrong because it takes no account of inflows from personal and corporate investments abroad.

On page 30 paragraph (c) it is stated that there can be little justification for any future U.K. aid related to the private sector if its sole net effect is to increase the remittance of profits to the U.K. May we know what past aid we have received from the U.K. apart from the recent fencing subsidy which was unsolicited? In truth, the U.K. registered Companies trading in the Colony are the most under-privileged farming Organisations here, being assessed to full U.K. tax and receiving nothing

...../

in return. No subsidies, no investment grants.

Chapter 3.

The calculation of Falkland Islands income appears to have the following shortcomings :-

- (1) It excludes provident fund contributions by Companies and the interest credited to Subscribers.
- (2) The assessments for benefits in kind are unrealistic as stated in the report at a later stage (page 327)
- (3) Presumably the figures do not include income taxed abroad and which is covered under double taxation agreements.

It must be remembered also that employers in the Colony, with F.I.C. in the lead, provide benefits such as non-contributory pension, overseas educational assistance etc. It is essential that these factors be taken into account in any comparison between F.I. and U.K.

Page 45.

There are hire purchase facilities available.

Page 47.

Is the figure of remittances to U.K. banks through F.I.G. Treasury significant? Most of the funds must be remitted through F.I.C. which is faster and more commercial than Crown Agents.

The Treasury seems to have lost £10,001 of depositors' money in 1974/5.

Employee credits in farm accounts.

This subject is deserving of more research and objectivity than it is given in the report. The statement received by each employee records, in accordance with the agreement with the Union, earnings from wages, overtime, long service awards, contracts, cost of living bonuses and transfers between individuals.

From these credits are paid -

Store purchases from the farm store.

" " from various Stanley stores.

Union subscriptions.

Licenses.

Payments to third parties - Government, Post Office and individuals.

Transfers to Savings.

A typical 3 monthly account would have 5 or 6 credit entries and 20 to 30 debit entries. They are in fact current accounts. They are not

...../

necessarily credit accounts. Certainly aggregate balances are in credit, but there are normally some debit balances at each farm. Money does not change hands to any great extent at farm location and farms feel obliged to offer these current account facilities. If they were not provided by the farm they would have to be provided by another organisation and the volume of entries and level of balance are such that bank charges would be incurred in the majority of cases.

Employers do not like employees accumulating large credit balances and would prefer that the money be invested to bring in a return and to give some means of protection from inflation. The more responsible employers have offered to arrange for the investment of savings outside the Colony and to handle all consequential documentation. It must be accepted, however, that there is a reluctance to invest outside the Colony.

Private Sector investment,

We cannot agree that investment in the tertiary sector is insignificant.

Most of the Companies are not registered in the U.K.

On page 50 it is stated that fixed capital investment by the 9 (that is excluding F.I.C.) totalled only £20,000 in the 4 year period 1970-73. Why is the 4 year period chosen when there are other references to 5 year period and other tables are up to 1974? Could it be that in 1974 capital formation jumped? Incidentally, F.I.C. capital expenditure totalled £153,096 in the 4 year period and £236,526 for the 5 year period.

On page 51 it is stated that F.I.C's fixed investment	
1970/74 was	£135,516
and was exceeded by depreciation provisions	
amounting to	£163,835

Our figures are -

Capital investment	£236,526
which is exceeded by depreciation provisions of	£250,080

Depreciation provisions exceed investment because, alas, it costs us a good deal more money to replace buildings, tractors, vehicles and plant and we have to start putting the money aside now. If we do not we shall find that we have insufficient funds on hand and will be criticised for withdrawing money from the Colony.

One of the reasons for the discrepancy must be the omission by the Shackleton team of our investment in M.V. "Monsunen" which was made through

our U.K. ^{Subsidiary} in order to maximise tax allowances. This vessel is vital

...../

to the economy of the Falklands and the money for our share had to come out of taxed profit from the Colony. It was not invested in U.K. property.

Investment in shipping must be another cause of the gross over-statement of profit withdrawal from the Colony. Until F.I.C. registered Darwin Shipping Ltd. shipping operations were excluded from assessment or allowance in the Falklands. The F.I.G. statistics on which table 6 is based must therefore exclude F.I.C. investment in R.M.S. "Darwin" even though this took almost the whole of F.I.C.'s post-tax profits for 1953, 1954 and 1955 in years immediately prior to commencement of building. In other words F.I.C. had to earn about £800,000 to pay for R.M.S. "Darwin". The many Islanders who travelled on R.M.S. "Darwin" will be grateful for the investment in this particular "U.K. property".

Paragraph 6. Page 53.

It is stated that "even F.I.C. has only recently began to allow its senior farm managers access to full financial information about the farms they themselves manage." This is untrue. For several years each farm manager has received full information relating to costs of production and sale analysed into components and then expressed in pence per kilo. Each manager has received this information for his own farm and for the Company as a whole. F.I.C. led the movement to extend this to the Colony.

We know of no recent changes in policy.

Paragraph 7. Page 53.

It is hoped to set up a professional service shortly, but it must be realised that not everyone will welcome a service under which confidential figures are made available to F.I.C.

Investment Incentives - Page 54.

The investment scheme introduced following the Guillebaud Report was ill-conceived and was doomed to failure. The counter proposals of F.I.C. were ignored by Government.

Local investment incentives will be of no avail unless -

(1) They are flexible, giving individual farms the choice of development expenditure. Direction of investment into sub-division fencing was wasteful insofar as it did not maximise use of resources and distorted the pattern of investment.

...../

(2) They take into account the taxation position of the majority of Companies.

F.I.C. first wrote to Government in 1961 following discussions with the British Treasury and gave details of how Double Taxation Agreements could be amended to give relief in U.K. for taxes spared abroad.

Again in 1966 we wrote drawing attention to an address given by the Deputy Chairman of the Board of Inland Revenue on the same subject.

No action was taken by F.I. Government.

Paragraph 1. Page 57.

2 British Members of Parliament, one with farming interests, were among a group of people debarred from participating in a consortium to purchase a Falkland Islands farm. One of the M.P's represents a Kentish constituency and apparently his participation in the consortium to purchase from residents of Kent could be harmful to Britain's balance of payments.

Immigrants - Page 63.

The team has not discussed with F.I.C., London, the procedures adopted by the Company for recruitment of labour.

Camp Wage Agreement - Page 67.

The Basic Wage Adjustment was never intended to be a profit-sharing agreement. The 3 major U.K. Companies including F.I.C. all, however, have profit-sharing agreements for their employees additionally to B.W.A.

Employee Organisations - Page 69.

The Association of Farm Management has not sought negotiating rights. F.I.C. would have no basic objection.

The Camp - Page 77.

We cannot allow the statement that the Camp Worker "is commonly left with barely enough to subsist during his remaining years" to go unchallenged.

F.I.C. farmworkers receive upon retirement after 40 years service -

- (1) Pension equivalent to half-pay (basic wage plus cost of living bonus.)
This is non-contributory.
- (2) Provident Fund balance.
- (3) Government old age pension of £9 per week for a married man.

The pensions are reviewed annually. Cases of hardship are immediately dealt with.

The question of forced retirement to Stanley will be discussed later but there are valid reasons for this, not least the absence of medical facilities at farms, through Government centralisation.

CHAPTER 6 - AGRICULTURE

RESOURCES

We think the general description excellent, but disagree on the following minor points:-

Sheep Population We have reason to believe that the official figures of sheep population in the late 1800's are exaggerated. It should also be taken into account that in stocking virgin land its capacity can only be established by trial and error, and that in the early days there must have existed nutritious plants unable to survive for long any grazing pressure by sheep, however skilled and careful the management.

Current Population Corriedale and Polwarth blood is now more predominant than Romney. Farms have tended to produce wool of as fine quality as their geography permits, finer-woolled sheep being best suited to drier areas. The principal buyers have in fact recommended retention of a wide range of wool qualities (though not on the same sheep!) and say that at present there is too high a proportion of 56's. But price differential has been a stimulus towards production of finer wool, although that tends towards reduced weight.

For work purposes there has been little substitution of horses by landrovers, more by motor-cycles, much more by tractors. A principal reason for the fall in horse numbers has been the much reduced demand for them for social travel, now carried out chiefly by mechanical means. The principal lack of skilled horsemen is in respect of colt tamers.

AGRICULTURAL PRODUCTION & PERFORMANCE

Grassland Use We do not accept that mismanagement and lack of understanding were generally responsible for fall in production potential, where that has occurred. We do not deny that it has occurred in some areas, but have evidence showing that vigorous and enlightened efforts failed to arrest it.

The extensive pasture reseedings of the 1960's did not result from the Wannop Report, in fact was discouraged by it. The whole emphasis of that report was on subdivision fencing. At least one farm, which spent heavily in following its recommendations, has seen little or no return from the expenditure.

There has been some highly successful reseeded of whitegrass camp, on our farms in particular.

White clover can be and has been established at high cost, but shows little sign of nitrogen fixation, presumably because of lack of phosphate and low soil temperatures.

The great majority of mechanical ditching done in the Falklands has been on our farms by our machines, not Government's. It has produced some improvement, but far from commensurate with the cost involved.

The Upland Goose We suggest that geese may play a useful role in spreading inland fertility brought in from the sea by sea-birds and grazed kelp.

Breeding The recent fall in numbers of sheep imported is largely due to a complete ban on importations from South America, which we believe to be mistaken.

Weaning It is not normal to move hoggets or any other sheep during the winter.

Classing A, B and C represent grades of fineness. AA, BB and CC the same grades of fineness, but higher non-wool content or other fault.

Wool Production Seasonal factors affect weight of clip and number of sheep shorn over a range of about 10%, so that the apparent downward trend is insignificant. We believe the underlying trend on our farms to be upward. Total weight of wool produced in 1961-70 from all farms was higher than in any previous decade, although finer in quality and therefore intrinsically lighter per fleece. An unusually good lambing in one year can reduce the total wool clip in the following season, while increasing its value per kilo, due to the higher percentage of young sheep.

We do not expect the GTU experiment with November/December lambing to be successful, believing that lambs born so late will be stunted through having too short a period of relatively good feed between weaning and onset of winter. We think it well worth while nevertheless.

Table 33 The figures show that Hill Cove and Roy Cove increased wool production by 15% and 26% respectively through extensive reseeded and some associated new fencing. Port Howard production fell after extensive subdivision fencing without reseeded. This we believe to be highly indicative, and we hope that the GTU will soon turn their attention to

refinement of methods pioneered by Roy Cove, which have increased production at economic cost to a degree unparalleled in the previous history of the industry. These methods are not 'based mainly on the results of experience elsewhere in the world' but derived from hard earned experience through trial and error.

Labour Productivity The report shows lack of appreciation of the strain on management and men imposed by existing staffing levels.

Costs Geography of farms has a large effect on their costs of production. Central location of settlement and absence of physical barriers, such as steep hills and wide streams, make for lower labour requirement. Distance from Stanley affects freight rates.

CONCLUSIONS & SCOPE FOR IMPROVEMENT

We dispute the alleged decline for reasons stated above. Improvement in fleece weights is not necessarily the result of breeding. Better nutrition through lighter stocking may play a part. Farmers have certainly not lacked advice from visiting experts, some of it good and some bad. Any who had followed it all religiously would probably have been bankrupt long ago. The Agricultural Department was ineffective long before its decease. We share the regret expressed at the closure of the Anson experimental farm and welcome the establishment of the GTU.

Pasture Improvement Tussac is so attractive to stock and so easily destroyed by overgrazing during its growing period that it is extremely difficult to fence securely, particularly in areas remote from dwellings and in the coastal headlands which are its natural habitat.

Breeders & Selection Our information is that it is not possible to preserve sheep semen by freezing, making its importation impossible.

Wider Ownership of Agricultural Land We fully appreciate the social benefits of creating more relatively small owner-managed or tenant farms, and will co-operate to bring that about wherever and whenever we are satisfied that the disadvantages to the Colony and its people as a whole will not outweigh the advantages. We have already leased good land to a tenant of Government land near Stanley, to enable him to breed more lambs and fatten cattle for sale in Stanley. But we are

aware that, while wool remains our staple export and the local market is so small, the less the size of a farm the higher its cost tend to be and the less attractive to the buyer its wool clip.

We are criticised for replacing breeding ewes with dry sheep on two of our smaller islands, but have done so for sound commercial reasons.

Our islands generally are suited to a strain of sheep producing a finer quality of wool than is practicable on our mainland farms. The islands in question are easily stocked from our other outlying islands, which are still inhabited, and since the change are producing more wool than ever before. We aim to minimise shipment of sheep, since it is an expensive operation and caused them stress.

We are prepared to consider leasing some of our outlying islands at a rental fairly related to our net returns from them; but we are conscious of the fact that, while they should provide a reasonable living to one or more families, they will impose a heavy burden on Government in provision of medical, educational and other services, while probably providing less tax revenue to pay for them.

We also have to take into account the fact that we maintain two sizeable vessels to service our outlying islands, and that therefore to part with them piecemeal would impose higher costs on those which we retained. We dispute the argument that we are not using the islands to their full potential for wool production, and do not see how else they could be profitably farmed in present circumstances, being so remote from Stanley.

Wool Marketing It would be a simple matter to provide SOA in Stanley with all the market information available to buyers, though expensive in agency fees and cable costs. But even the buyers with their long professional experience of the market can seldom predict with confidence the future trends which must govern present selling decisions.

DEVELOPMENT PROGRAMME & POLICY

AGRICULTURE

We are horrified at the proliferation of additional Government staff

recommended and suggest that the following principles should be observed when considering new appointments :-

That the present GTU leader, whom we believe to be excellent, should remain in charge of all experimental and advisory activities connected with sheep-farming and given every encouragement to remain in the Islands for at least ten years.

That he should be provided, as far as possible, with all the staff and equipment he asks for, but none should be foisted on him against his wishes.

That it is rarely worth while to send out experts for brief visits, which give them insufficient time to understand the peculiar local conditions. It may often be better to obtain advice from them through correspondence and visits to them by FI residents on leave.

Efficiency Improvement Grants We see no useful purpose in cash grants to sheep-farms, knowing of none prevented from profitable development by lack of funds. Unprofitable development obviously should not be subsidised.

Horticultural Adviser We think a feasibility study lasting a few months a waste of money. More demonstration is needed and less exhortation.

Wool Marketing We think that much more investigation is needed before appointment of a wool-marketing adviser. We see advantages to Government and sheep-farmers other than ourselves in stabilisation of wool prices from year to year, which must largely depend on Government agreeing not to tax proceeds until paid out to producers. We believe the present system of wool transport and marketing to be the most cost-effective practicable, but would welcome investigation by experts, perhaps from the British Wool Marketing Board, which could be conducted in UK. It is perhaps unfortunate that there is no other person or body in UK with knowledge of Falkland wool and its markets comparable to that of its principal buyers, Jacomb Hoare and David Smith, both firms having specialised in this tiny section of the world market for generations.

Chapter 8 - Mineral Resources.

There are 2 particularly significant statements -

(a) "It appears to us very unlikely that any exploration programme can be embarked upon in the offshore Falklands area without the agreement and co-operation of Argentina." Indeed, it is doubtful in the extreme that an oil company would accept a unilateral offer of exploration/production licences by the Falkland Islands Government without firm assurance that this was also acceptable to the Argentine" ----

(b), it can be concluded that any oil company, whether private or state-controlled, embarking on an exploration programme in the Eastern Malvinas Basin will have a rather sober view of the potential commercial gains."

Nonetheless it is a fact that a powerful North American consortium did submit to H.M.G. a proposal which excluded Argentina. The consortium was persuaded to offer YPF participation in the development and a formal proposal, which has been authoritatively described as being on more favourable terms to Government than the North Sea agreement, was submitted. Exploration is deterred not by the oil companies view of the hostile weather conditions nor by the findings of the limited seismic surveys carried out, but by H.M.G. policy of not confronting Argentina with issues affecting sovereignty.

A copy of the formal proposal of the North American Group was handed to the Shackleton Team by the Company.

Chapter 10 - Transport and Communications.

When so much has been written about the alleged monopolistic conditions of trade enjoyed by F.I.C. it should be placed on record that Coastal Shipping Ltd. was set up by the Company as a non-profit-making organisation, limited by guarantee, to provide the coastal shipping services for the Colony.

The charter hire charged by F.I.C. and Jeppesen Heaton Ltd., the joint-owners, was below the market rate at the time of the vessel's introduction and, with inflation, even further below the rates which could now be obtained in European Markets.

"Monsunen" - page 219.

M.V. "Monsunen" is a strong, economical and reliable vessel carefully selected for Falkland Islands needs. Over a period of 4 years she has met all

...../

demands made upon her which exemplifies the soundness of her construction, the excellence of her technical design and the efficiency and conscientiousness of her master and crew. A purpose-built vessel or a second hand one purchased to meet peak demand capacity would increase local freight rates very substantially.

Main engine fresh water cooling has been installed.

External sea freight services.

Ports & Jetties. Page 227

Over the past 2½ years the duration of loading and discharge at Stanley has averaged 29% more than in the Thames estuary. Much of this increased time results from adverse local weather conditions. Increased mechanisation can only be justified by greater utilisation. It is certainly not justified commercially by a less than 10% utilisation factor.

Two fork lift trucks were ordered in 1975 and are now both operational.

With increased palletisation the differential between turn-round times will be further reduced.

Chapter II - Distribution and Services. Page 242/3.

F.I.T.C. is not involved in warehousing activities.

The time for placing of orders should be 2 to 3 months not 4 to 5 months. The reference to 1952 must relate to the Co-operative Society, Stanley, not West Store.

Coastal Shipping - Page 229.

A Rotork sea truck is carried by M.V. "Monsunen". The suggestion that a 12 metre Rotork passenger/freight vehicle ferry at speeds of up to 20-30 knots and carrying up to 20 passengers^{be used} in the sea conditions prevailing around the Colony horrifies us.

YPF Agreement.

We find the comments and conclusions naive in the extreme. It is stated that potentially the most attractive element in the Agreement - signed in 1974 - WAS THE PRICE of fuel offered - apparently agreed in 1976. We say apparently because no official notification has been received from official sources.

It is extraordinary that an open-ended price agreement giving to Argentina monopoly over supplies of fuel despite British objections should be considered satisfactory because some 2 years later the price is linked to a particular rate of exchange which is itself regulated by the owners of the supplying Company.

...../

The criticism of the monopolistic terms of the agreement did not arise largely because the Argentine Government is the supplier but because of the manner in which the agreement was negotiated. It is hoped that there will be a public enquiry into this.

It should be recorded that there is sufficient diesel storage capacity in the Colony for 4 years needs. The requirement of the Colony was for bulk supplies of gasoline. This need could have been met at a fraction of the cost of the YPF and H.M.G. capital costs under the agreement without prejudicing sovereignty.

Another serious objection to the agreement was the safety factor. Upon the insistence of F.I.C. the Foreign and Commonwealth Office appointed independent experts to look at the proposed installation.

The following are some of their findings; question and answer form :-

(a) Q Whether the arrangement agreed to by HMG is in accordance with standard International Practice in the Oil Industry;

A Not in all respects.

(b) Q Whether an unacceptably high degree of fire or other hazard might result, from this arrangement;

A YES.

(d) Q If the arrangements are judged to be hazardous, whether and how the hazards may be reduced to an acceptable level.

A They cannot be so reduced.

The Agreement appears to contravene Article 85 of the Treaty of Rome and presumably cannot, therefore, be implemented.

SERVICE INDUSTRIES - Banking - Page 259.

F.I.C. provides the following facilities -

- (1) Current Accounts, including cheque drawing facilities.
- (2) Foreign Exchange.
- (3) Exchange Control
- (4) Investments in U.K. and tax-related services.
- (5) Financial Advice.
- (6) Loans and overdraft facilities for the sheepfarming industry and ancillary trades.
- (7) Loans to employees for house purchase.

...../

Sound financial advice is only lacking to those people who are not prepared to consult F.I.C.

The F.I.C. has a positive policy in relation to extension of banking facilities in the Colony. The policy has not been implemented partly because of the fiscal repercussions which would follow attraction of funds away from the Government Savings Bank and partly because of F.I.G. over-reaction to official advice from U.K. on banking.

F.I.C. welcomes the endorsement of its established policy by the Economic Survey and expects to provide an extension of its banking facilities in the near future. The flow of funds into a local commercial bank is likely to be at the expense of the F.I.G. Savings Bank rather than U.K. banks. It is hoped also to provide building society facilities, not only for the people of Stanley but also for farm-workers in a scheme related to owner-occupation of farm houses.

Education - Page 304.

It is quite wrong to state that the contribution made by F.I.C. towards educational costs is available only to some of its employees. Untrue statements such as this only encourage divisiveness in the Colony. In fact the scheme applies to every single employee of the Company as is outlined in a booklet issued by the Company to all its employees.

Recreation Facilities and Activities. Page 310.

F.I.C. has been monitoring development of television services since 1965. A current investigation is being carried out on Video-cassette equipment.

Tax Haven.

This is a most disappointing section of the report. The proposals made by F.I.C. in the past do not entail loss of present revenue. From the discussions F.I.C. has had with interested parties it is clear that there are no problems relating to political stability or to accessibility. Nor will the registration of trusts be deterred by the Climate.

...../

If the necessary legislation was introduced, the flow of revenue to the Falkland Islands Government and the creation of more varied job opportunities for Islanders could only be beneficial.

Chapter 16 - The Falkland Islands Company.

Dundee Perth & London Securities were not part of the Slater Walker Group although around 20% of the shares were held by the Group. It is unrealistic to refer to F.I.C.'s activities as extending to U.K. activities now that F.I.C. is itself a wholly-owned subsidiary. F.I.C. now has no interests other than Falkland Islands interests and is operated with a substantial degree of autonomy from Charringtons.

The figures published of F.I.C.'s profits for 1972, 1973 and 1974 are not consolidated figures. It is the consolidated figure which is important when comparison with dividend is made.

The average annual profit for the 3 years 1972/3/4 (which was exceptionally good) was £305,447. If 1975 is included (£75,491) the average falls to £247,958.

It would be interesting to learn the areas ^{enjoys} in which F.I.C./ (sic.) a monopoly or near monopoly in which competition can be economically justified.

One would hope that F.I.C. is regarded by the Islanders as being a more effective instrument in safeguarding public interest than Government. If F.I.C. policies were influenced or controlled by Government it would not be in the public interest. F.I.C. is happy to submit its policies to any test. If the policies are deemed harmful to the public interest it is a comparatively simple matter to legislate.

COMMENTS ON SHACKLETON REPORT

CHAPTER 13 PUBLIC UTILITIES

Power Supplies

p.p. 283-7 Scope for Wind-power

We are seeking further information about medium-sized wind generators, not having heard previously of the Elektro and Wesco. We have investigated the Canadian vertical wind turbine and concluded that the cost is too high for it to be economic, although it is likely to be more reliable and easy to maintain than the horizontal propeller type.

We think that the report underestimates the difficulty of integrating a wind generator with a diesel plant. Supposing that at nightfall the wind is blowing strongly enough for the wind generator output to suffice, but the wind dies down during the evening, as it usually does, then the diesel plant has to be started, and if the two are to be synchronised that has to be done by hand with expensive additional apparatus.

undoubtedly to make use of the periods when most wind is to be expected battery storage is necessary; and batteries of a capacity to supply an average-sized settlement are very expensive and have a limited life.

AC current is required to power most electrical equipment, domestic and other, which means the further expense of an inverter.

The statement that 'a wind generator is essentially competing in cost terms with two 12 volt batteries in series' does not seem to us to make sense. We do not think it practicable to power an energiser directly from a wind generator without batteries. And even if it were, that would mean the fence was dead when the wind ceased to blow.

We shall follow the GTU electric fence trials with great interest; but from what we have learned of New Zealand experience we doubt that it will prove satisfactory as a substitute for conventional fencing on an extensive scale. It is fundamentally much more effective for cattle than for sheep, whose wool is an excellent insulator. The most powerful energiser on the market is claimed to be effective over a maximum 62 (not 300) miles length of well insulated fence and requires 24-32 volt batteries. That would mean on an average-sized farm heavy batteries having to be carried long distances to several locations at regular intervals from the nearest charging facilities - unless remote and infrequently visited wind generators proved practicable (previous experience with them in the Falklands suggests that they would not). We also foresee difficulties from dogs becoming afraid to go through fences.