



FALKLAND ISLANDS ECONOMIC DEVELOPMENT STRATEGY

PART A

SETTING THE SCENE



Developing a sustainable economic future for the Falkland Islands

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SECTION A: Introduction

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

Detail the:

1. Current state of the industry sector
 - a. What are the sub-sectors?
 - b. Volume, value of output & avg growth rates
 - Baseline Gross Value Added
 - Baseline output volumes
 - Growth trends
 - c. Employment numbers
 - d. Tax and fiscal contribution
2. Produce detailed industry SWOT analysis
(address the following areas: economic (labour availability, wages, operating cost), investment & finance, marketing & distribution, fiscal/tax, social, infrastructure, environmental, external & other factors)
3. Gap Analysis
 - a. What are the industry's weak spots, vulnerabilities and areas of concern?
 - *internal factors & trends (company / industry sub-group / industry-wide?)*
 - *external factors & trends (economy-wide? domestic / regional / global?)*
 - b. Identify areas of potential increases in value added (output) and productivity gains and how to attain these (vertically/deepening; horizontally/broadening; or efficiency/productivity)
 - c. Based on existing business plans (if any), what are the industry's investment and capital needs? How much will come from internal funds/retained earnings and/or from external sources (amount and/or %-age split, options and possible sources)?
 - d. What are the technical and labour issues that affect or limit industry's sustained growth and expansion? (technology? skills? management capacity?)
4. Collate sector findings and prepare industry assessment report (6-7 page summary).

Overarching Targets

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

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

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

SECTION B: Common Themes

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

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

SECTION C

Agricultural Industry Assessment

FALKLAND ISLANDS AGRICULTURAL INDUSTRY

INDUSTRY ASSESSMENT

OVERALL ANNUAL GROWTH TARGET: 3%

1.0 Executive Summary

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

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

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

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

2.0 Main Sectors & Sub-Sectors

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

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

Table 1. Greasy wool exports and value since 1998.

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

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

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

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

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

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

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

2.0 Gross Value Added and Turnover for the Agricultural Industry

2.1 Value Added

- Baseline GVA: £2,308,592

Table 4. Gross Value added figures in Agriculture

Table 4. Gross Value added figures in Agriculture

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

2.2 Trends & Conclusions

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

3.0 Employment

Table 5. People employed in the Agricultural Sector

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

3.1 Trends & Conclusions

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

4.0 Global Trends

4.1 Wool Industry

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

4.2 Sheep Meat Industry

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

4.3 Beef Industry

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

5.0 SWOT Analysis

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

5.1 Gap Analysis

Internal Factors

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

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

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

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

External Factors

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

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

Potential Future Development

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

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

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

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

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

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

Potential Future Investment

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

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

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

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

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

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

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

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

SECTION D

Fisheries Industry Assessment

1. Current state of the sector:

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

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

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

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

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

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

1.11 Sector Data:

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

2. SWOT Analysis:

Strengths

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

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

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

Weaknesses

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

Opportunities

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

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

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

Threats

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

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

Weak spots, vulnerability and areas of concern

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

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

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

Potential added value areas

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

Investment and capital needs (excluding illex):

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

Technical and labour constraints

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

4. Summary:

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

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

Annex 2 – License Allocations by Year

Table B.1 Licence allocations by licence type and year

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

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

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

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

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

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

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

Annex 3 – Annual Catch by License Type

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

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

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

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

Annex 4 – License Types & Periods of Application

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

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

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

** Restricted finfish - Main target species:

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

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

Annex 5 – Financial Summary

FALKLAND ISLANDS FISHERIES INDUSTRY

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

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

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

Annex 6 – Glossary of Terms

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

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

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

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

SECTION E

Services Industry Assessment

1. Main Sectors

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

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

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

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

2. Gross Value Added and Turnover by Sector

Nominal Value Added¹

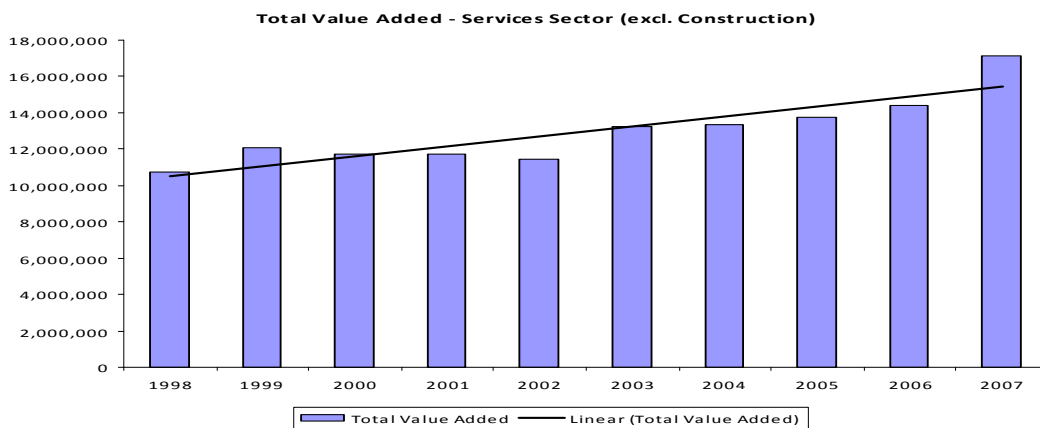
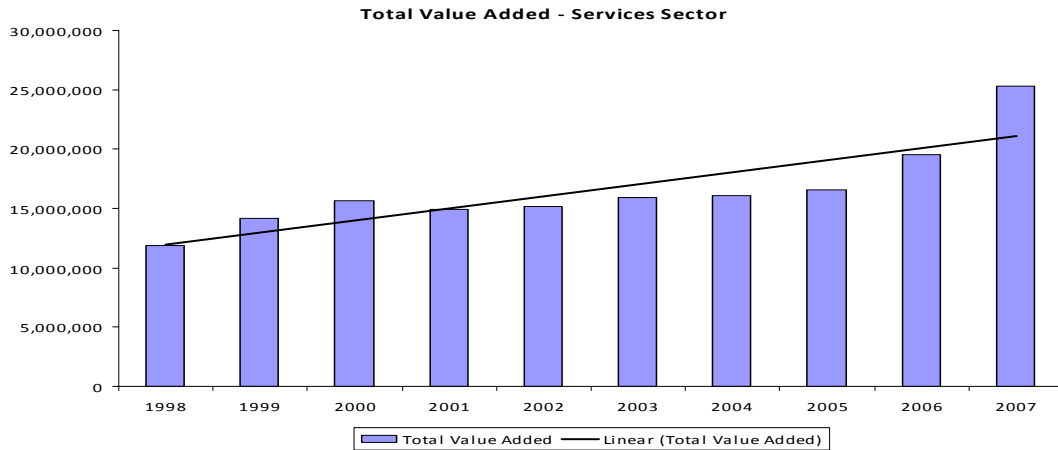
¹ Other services includes not for profits and a couple of smaller profit seeking enterprises.

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

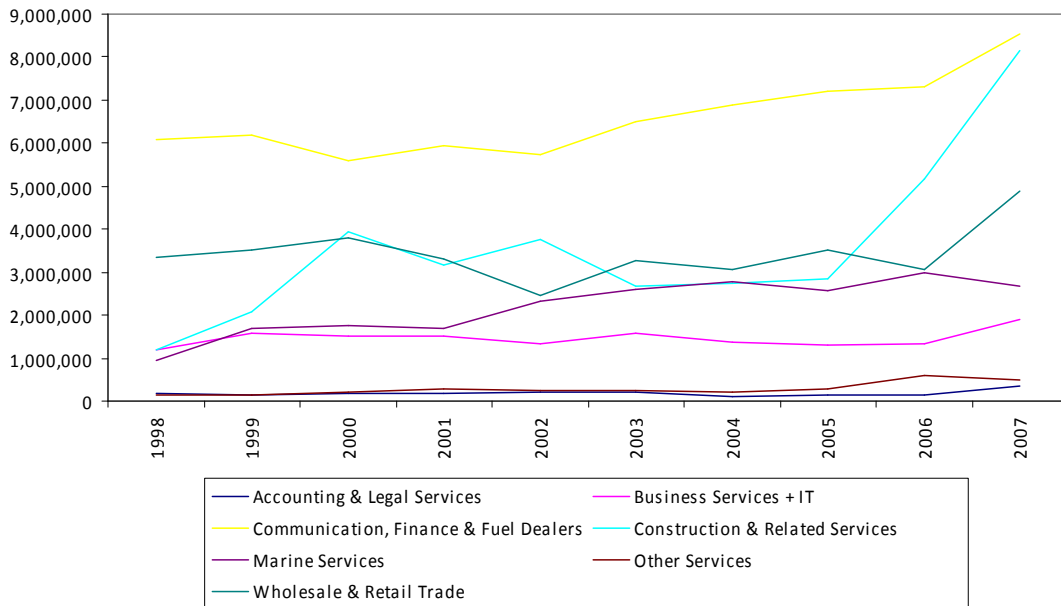
Compounded Annual Growth Rate - Other Industries (1998:2007)

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

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



Value Added by year per Sub-sector



In-focus: Construction

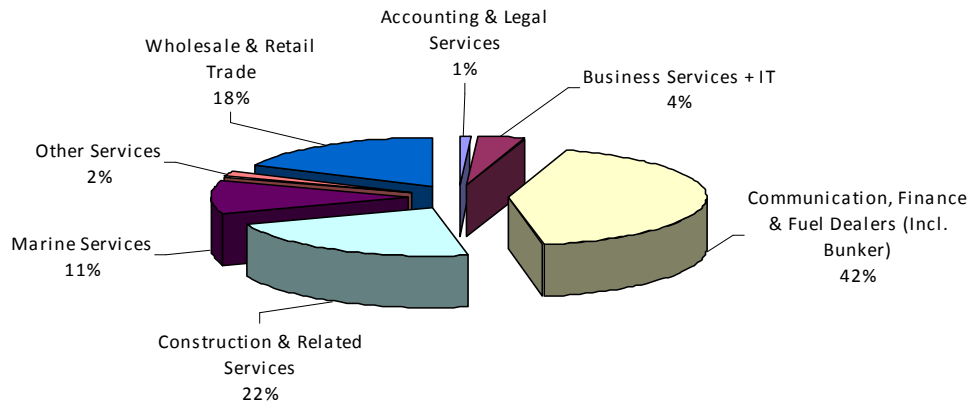
	Construction Value Added (£'s)										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	CAGR
Total Construction	1,185,126	2,074,263	3,934,901	3,176,423	3,749,994	2,676,602	2,727,914	2,836,029	5,154,158	8,172,655	23.93%
<i>FI Private Construction (excl. Overseas Income)</i>	734,778	1,286,043	2,439,639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

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

Turnover²

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

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



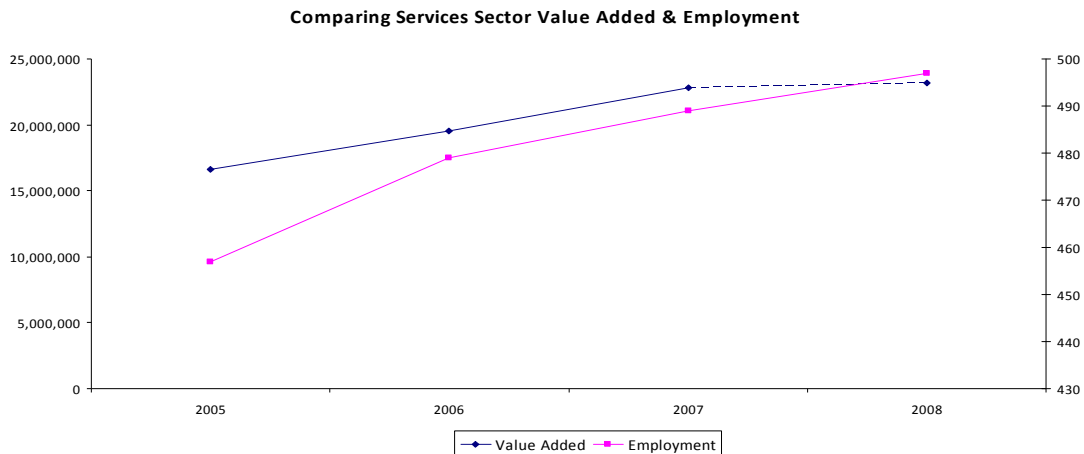
Trends & Conclusions

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

3. Other Key Performance Indicators

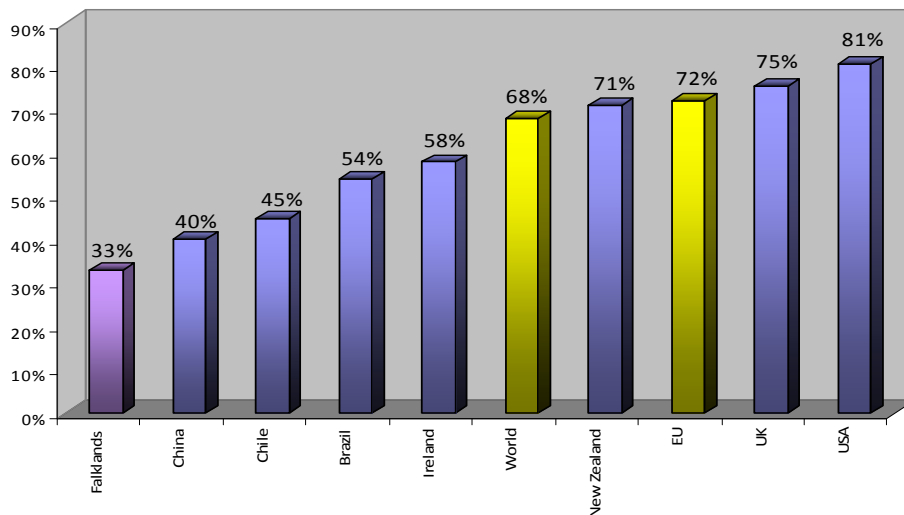
I. Employment Numbers

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



II. International Benchmarks³

Percentage of GDP made up by the Services Industry*



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

III. Key Output Volumes⁴

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

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

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

* Estimates based on planning permission

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

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

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

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

5.0 SWOT Analysis

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

6.0 GAP Analysis

UTILITIES AND INFRASTRUCTURE	<p>Major Areas of Concern</p> <ol style="list-style-type: none"> 1. Lack of capital investment in physical infrastructure and transport links such as Port Facilities. 2. Current level of Telecommunications systems quality in the islands. 3. Lack of air links to and from the islands. 4. Energy rates too high for some economic activities. 5. Current road conditions are a limitation for development and can also cause costs in vehicle maintenance etc. 6. Shipping Service into a worldwide network is still in its infancy, possibly limiting some exports and imports. <p>Potential Improvements</p> <ol style="list-style-type: none"> 1. Assignment of increased FIG revenue generated to be reinvested directly into relevant industry or development infrastructure (e.g. Jetty Centre). 2. More stringent and hands-on regulation of this single supplier by FIG. Reduction in rates. Possible competitor based overseas. Or look into the possibility of opening up the telecommunications market. 3. Evaluate the viability of flights to and from Brazil and midweek flights to and from South America. 4. Discounted rates or a tiered energy pricing system, to accommodate high volume utility users. 5. Have FIG aim to maintain more often and to a higher standard. 6. Evaluate thoroughly the need for port facilities and services which make containerisation attractive. This would likely broaden shipping options and possibly improve costs due to a wider selection of importing origins. 	FINANCE
	<p>Major Areas of Concern</p> <ol style="list-style-type: none"> 1. Lack of domestic commercial lenders and need for alternative capital markets. 2. Lack of opportunities for Foreign Direct Investment (FDI) and manage FDI effectively when it occurs. <p>Potential Improvements</p> <ol style="list-style-type: none"> 1. Creation of investment bank, bond market, venture capital funds or other similar institutions to provide competition and alternative sources in the commercial loan market. Need to ensure this area is regulated properly and effectively. It also needs to be noted that only very specific segments of industries are likely to benefit from this. 2. Enhance Falkland's attractiveness to foreign investment by introducing investment instruments and supporting more open regulations on foreign capital investments. 	

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

SECTION F

Tourism Industry Assessment

1.0 Main Sectors & Sub-Sectors

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

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

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

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

Key Terms & Phrases

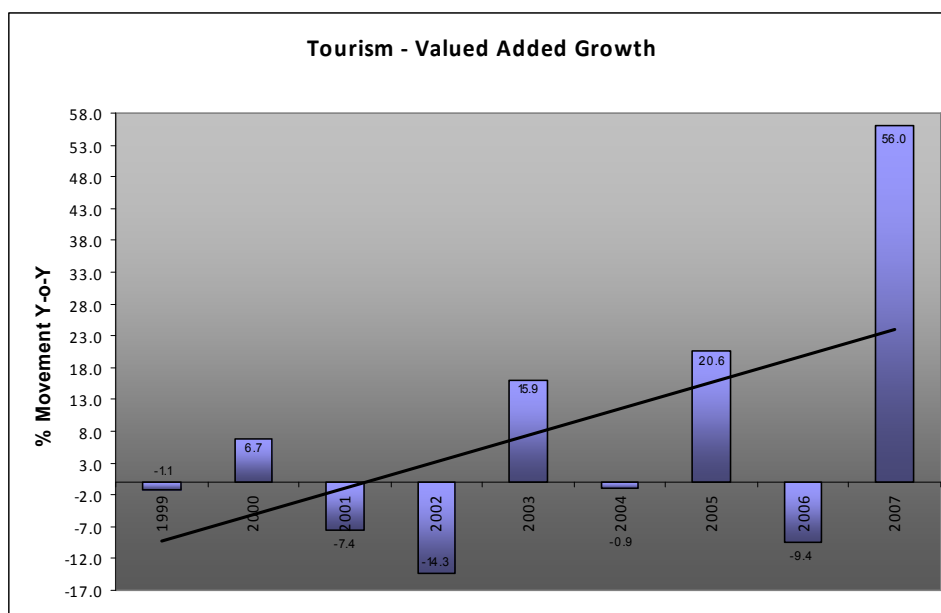
1. **Gross Value Added (GVA)** – this is an economists measure of the benefit a particular industry brings to an economy. GVA is directly equivalent to GDP, which is an international measure of productivity. GVA is calculated by summing all the wages & salaries with all the operating profits along with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

2.0 Gross Value Added and Turnover for the Tourism Industry

2.1 Value Added

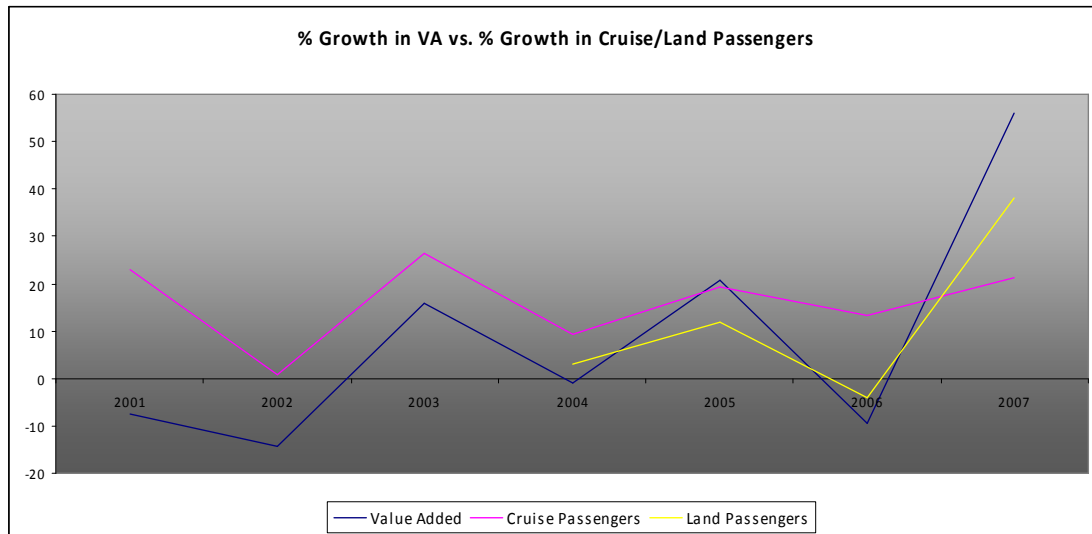
	Value Added	% Growth
1998	£2,000,125	
1999	£1,977,128	-1.1
2000	£2,109,382	6.7
2001	£1,952,295	-7.4
2002	£1,672,996	-14.3
2003	£1,939,011	15.9
2004	£1,921,511	-0.9
2005	£2,317,686	20.6
2006	£2,098,804	-9.4
2007	£3,273,665	56.0
Average	£2,126,260	7.33

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



2.2 Trends & Conclusions

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



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

2.3 Revenues

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

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

3.0 Tourist Arrivals Data – Land/Cruise Based

3.1 Land-based Data

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

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

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

3.2 Cruise-based Data

Cruise Passenger Forecasts to the Falklands to 2012/13

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

Source: Acorn

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

3.3 Trends & Conclusions

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

4.0 Domestic Tourism

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

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



5.0 Worldwide Tourism Benchmarks⁶ & International Trends

5.1 Benchmarks

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

5.2 Global Trends

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

⁶ Source: WTTC, 2009

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

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

6.0 Other Key Performance Measures

6.1 Gross Value Added per Worker

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

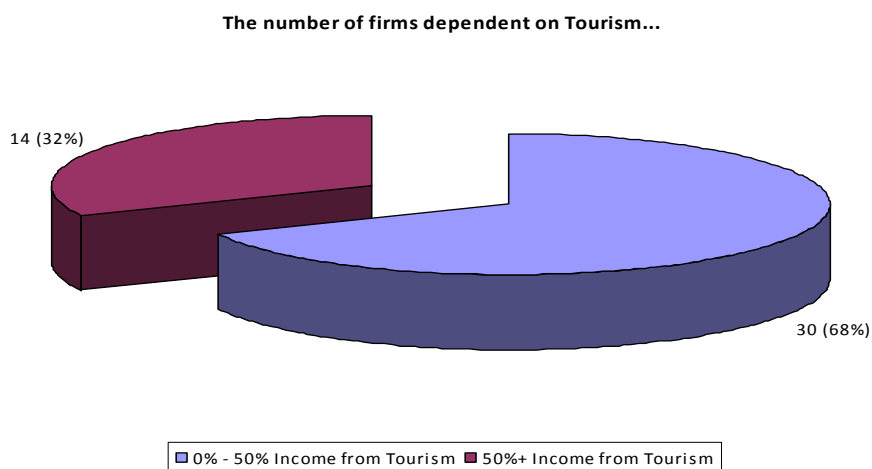
Average: £18,759

6.2 Investment per Worker

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

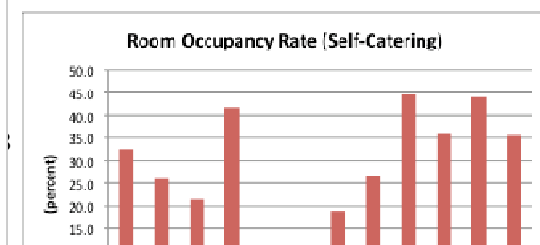
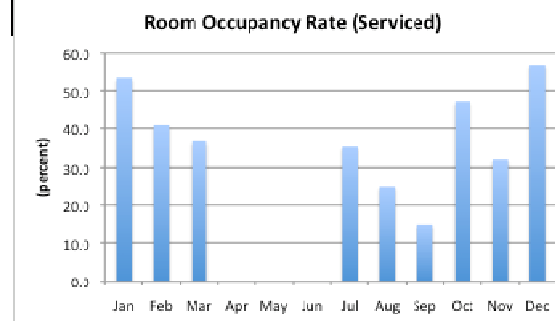
6.3 Dependency on Tourism Sector

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



7.0 Accommodation Statistics Summary (2008)

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



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

8.0 SWOT Analysis

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

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

9.0 Gap Analysis

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

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

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

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

10.0 Summary of GAP and SWOT Analysis

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

10.1 Local

Infrastructure

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

Available labour

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

Inter-industry cohesion/communication

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

Country-wide commitment to the future of the tourism industry

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

10.2 International

Air access

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

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

Exchange rate

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

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

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

Consumer awareness and perceptions

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

10.3 Strength-Weakness-Opportunities-Threats Analysis

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

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