

EXECUTIVE COUNCIL

PUBLIC

Title:	FIMCo Supplier Support Scheme 2021
Paper Number:	09/21
Date:	07 January 2021
Responsible Director:	Director Natural Resources
Report Author:	Director Natural Resources
Portfolio Holder:	MLA Teslyn Barkman
Reason for paper:	This paper is submitted to Executive Council: For policy decision (including budgetary policy)
Publication:	Yes
Previous papers:	58/20: Options for the Falkland Islands Government to purchase unsold wool as a support measure for Falkland Island Wool producers; 53/20: Economic Measures; 141/20: Economic Measures, including Tourism Measures
List of Documents:	None

1. Recommendations

Honourable Members are recommended to approve:

- (a) Financial support for FIMCo suppliers as laid out in Section 5, up to a maximum of £370,000
- (b) That the financial support scheme is conditional upon a FIMCo Board approved policy for an “equitable supply plan” for both mitigation models.
- (c) That FIDC be the organisation responsible for facilitating the support scheme.
- (d) That FIMCo operates Model B, noting that if all additional product produced in Model B remained unsold, there would be a net cost to FIMCo of £527k.

2. Additional Budgetary Implications

2.1. It is not anticipated that there will be any additional budget implications beyond the existing budget appropriations for business and wider community support referenced in Exco paper 141/20.

2.2. The past approvals for Covid-19 economic support and spend to date excluding the Capital unsold wool purchase are incorporated in a new table below:

Economic Measure (£'s)	Approved	Spent to Date
Employment / Self-employment	2,560,000	662,514
Job Retention Scheme	2,880,000	297,003
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Electricity Credit	150,000	165,109
Service Charge Waiver	125,000	125,540
Total	8,990,000	1,381,951
Reallocated to TRIP etc	-2,420,635	
Revised Economic Measures	5,319,000	1,381,951
TRIP etc*	2,420,635	149,943
Total	8,990,000	1,531,894

2.3. The total unspent balance across all schemes previously approved by Members are identified below:

Total All Schemes	£'s millions
Wool Clip Purchase - approved	3.22
Economic & Tourism Measures - approved	8.99
Total Approved Support (A)	12.22
Wool Clip Purchase – spent to date	2.76
Economic Measures - spent to date	1.38
Tourism Measures – spent to date*	0.15
Total Spend to date (B)	4.29
Balance of Approved Support Remaining (A-B=C)	7.93
Requested for Rural Matters (D)	0.37
Unspent Balance remaining (C-D)	7.56

- Note that unspent commitments against the TRIP totalled a further £820k as at 18 December 2020.

3. Executive Summary

- 3.1. As a result of the global pandemic and its impacts both globally and nationally, the Falkland Island Meat Company (FIMCo) has cancelled the full export season due the risk of the mobilization of the export season staff.
- 3.2. The FIMCo decision will impact on the sale of culls and mutton by farmers and therefore affect gross farm income.
- 3.3. It is considered that sector specific government support will be required to mitigate for the cancellation of a full export season at the FIMCo meat processing plant.
- 3.4. A modified export season is recommended (Model B), in light of the fact that UK has maintained tariff free access to the EU for its meat products following the departure of UK from the European Union. This has removed the potential risk of FI product competing with UK product had UKs exports to the EU been reduced.
- 3.5. FIG have provided a specific Government support to the Wool Industry in 2020 with the rolling out of the Covid-19 Wool Producers Assistance Scheme in response to impacts of C-19 on the global wool prices and markets.
- 3.6. A number of “general industry support measures” are available to rural businesses which complement the FIMCo Supplier Support Scheme 2021.

4. Background

- 4.1. During 2020 the emergence and spread of Covid-19 has seen unprecedented impacts on both global and domestic economies. In the Falklands we have seen the rural sector impacted in a number of ways. In the first quarter of 2020 the Falkland Islands Government responded to some of these impacts by developing and implementing a number of mitigating support schemes.
- 4.2. In response to the complete halt in wool trading the government developed and implemented a Wool Producers Support Scheme (ExCo paper 58/20). This was successfully rolled out in May when all unsold 2019/20 wool clip was purchased by the Government at a cost of circa £3m. Following to opening up of markets in the second half of 2020, FIG proceeded with the on-sale of this stock-pile of wool. In recent months all but a handful of this wool has been sold with a net cost to FIG of circa £700k.
- 4.3. Alongside the Wool Producer Support Scheme, the Government launched a number of other schemes targeting general business and employees as well as the Tourism sector (ExCo papers 53/20 Economic Measures; 141/20 Economic Measures, including Tourism Measures).
- 4.4. During the latter part of 2020, the Falkland Island Meat Company (FIMCo) embarked on its normal planning process for the 2021 meat export season. During this time the second wave of Covid-19 accelerated, particularly in the UK, and travel opportunities and risks therewith increased. Additionally, uncertainty regarding the final position on tariffs

applied to UK meat escalated with news emerging that Brexit negotiation might result in no deal for UK. Industry discussion reported resultant significant downward price risk to UK sheep meat prices. Following a full assessment of the risks both operationally and financially to the business the Board of FIMCo recommended that the employment of overseas seasonal staff and conduct of a typical export season was in all likelihood, not a viable financial option.

- 4.5. The FIMCo Board discussed this recommendation with elected members and Government officials and all parties concluded that the identified risks were such that the mobilization of export season staff for 2021 was not tenable.
- 4.6. Historically FIMCo process circa 45,000 sheep each year. The majority of mature sheep meat has been exported to the UK with much of the lamb to Europe. This year some 55,000 sheep have been stated by farm suppliers as being available. The FIMCo team, Board and DNR have been working together to consider possible mitigation measures both financially to farmers and operationally for FIMCo and farmers. This paper outlines proposed mitigation options for “normal” suppliers to FIMCo.
- 4.7. A key role of the Department of Natural Resources is to provide support to the farming sector to improve marketing of sheep, wool and beef products. This is further enshrined in the Islands Plan 2018-22 which states we will “work with partners to provide advice and support to farmers to expand and diversify their businesses”; we will “work with businesses to promote local products and increase the profile of our high-quality exports” and we will “support and drive local and international market opportunities for agricultural products”.
- 4.8. The vision for the Rural Development Strategy is “to build an attractive and sustainable rural economy, which is driven by a world-class dynamic and resilient farming industry, and underpinned by relevant enterprise activities, to reflect the island’s culture, identity and environment”. Falkland Island meat products have been successfully produced and exported since following the establishment of the Sand Bay abattoir, as a facility to facilitate the diversification of the rural economy.
- 4.9. The global collapse of wool markets in the 1990’s came soon after the subdivision of the large previously “absentee landlord” owned and operated farms. These new small, family owned and operated farm businesses were extremely vulnerable. At this time the Government responded with wide sweeping business support measures including loans, mortgage relief and capital injection in order to maintain the operational capacity of these new businesses. The Government also embarked on a programme of encouraging diversification for rural businesses, including a purpose-built meat processing plant at Sand Bay, to facilitate the export of meat. Thirty years on many of these farms have grown and diversified into robust rural business. Unfortunately, the diversified areas of business have all been impacted to a greater or lesser degree by the global pandemic. Whilst other support schemes will have mitigated the impacts to a degree (Wool and Tourism), this third impact on meat income will further erode the sustainability of these already vulnerable businesses.

5. Options and Reasons for Recommending Relevant Option

FIMCo is evaluating several operational models for the coming summer season in an effort to derive greatest possible economic performance for the business; maintain sheep throughput and hence income for farm suppliers and also to maintain high quality local meat supply for consumers. Models under examination are as follows:

5.1. FIMCo operation model A: Local domestic and retail markets plus fishing and jigger fleets.

FIMCo re-tasks existing staff to achieve a throughput of approximately:

- 5000 new season lamb and yearling lamb
- 5000 mutton
- Beef at close to status quo levels.

These products will meet the local market demand including the fishing industry.

5.2. This model will ensure no impact on farmers income for Lamb and Beef, therefore the supply/income derived from Lamb and Beef is ignored in this analysis.

5.3. Mutton supply would fall from an historically optimistic number of 37,000 down to 5000 animals. This would result in an assumed loss of throughput of 32,000 mutton.

5.4. Cull supply would fall from a conservative number of 12,000 down to zero animals giving an assumed loss in throughput of 12,000 culls.

5.5. Cull animals are loss making for FIMCo and as such are not sought by FIMCo. As a result, no mitigation value is assumed at this point in time. Considerable possibilities exist to move animals between farms for genetic and business improvement. Farmers are already exploring these options. DoA support may add value to this process in some instances.

5.6. No additional financial support measures are proposed to further assist in the movement of cull sheep (or other sheep types) between farms. Financial support mechanisms already exist allowing farms to explore the business merit of activities and potentially fund business improvement activities on a case by case basis.

5.7. Under FIMCo Model A, farm loss is assumed to relate to 32,000 mutton at an average gross value of £12.00 per head or a total of £384,000. If an average cost of transport/logistics of £2.00 per head is assumed for getting mutton from farms to FIMCo, the net loss to farms might be circa to 32,000 x £10.00 equalling sum of £320,000 for the non-supply of mutton.

5.8. FIMCo operation model A: Support to farms mitigation proposal:

Based on mutton supply outlined in planning sheets for the 2021 season plus regular but opportunistic supply (opportunistic supply of mutton averaged over last three years), all farms planning to supply mutton during the 2021 season; but who have not already done so; will receive a £5.00 per head payment via FIDC during February 2021.

Maximum total cost: 37,000 x £5.00/head = £185,000

- 5.9. FIMCo continues to process animals and payments for new season lamb; yearling lamb and beef as per normal. No mitigation actions for these livestock classes.
- 5.10. FIMCo continues to work with scheduled farm suppliers to process quality mutton for the three local markets.
- 5.11. All planned suppliers of mutton are paid by FIMCo as per price grid (less the £5.00 subsidy payment already received) along with normal payments for freight and logistics. Hauliers and other service providers paid as per normal schedules by FIMCo.
- 5.12. All farms continuing to work cooperatively with FIMCo on mutton supply (as per planning sheets) receive second payment from FIDC on the 1st July of £5.00 per head. This excludes any supplier who has already been paid in full for any mutton actually supplied to FIMCo.

Likely total cost: (37,000-5,000) x £5.00/head = £160,000

- 5.13. FIMCo would have benefitted by £5.00 per head on actual numbers of mutton processed with subvention adjustment a possible mechanism to reconcile difference.
- 5.14. Farms choosing not to work with FIMCo to maintain supply of quality mutton would be deemed as being ineligible for a second payment. Consideration would be given to local transport logistics.
- 5.15. Summary:
Farmers receive a minimum of £370,000 (37,000 mutton x £10.00/head). This may increase given actual price grid payment for the 5,000 mutton processed at FIMCo or decrease if farmers choose to withdraw cooperation and supply of mutton.
- 5.16. **Impact on FIMCo business performance under Model A:**
FIMCo forecast a “normal year” (with an export season) business loss of £591,000 for the 2020-2021 financial year prior to the advent of Covid-19 and exacerbation of Brexit tariff risk. FIMCo planning identified that the financial risk could amount to over £750,000 to the business and as such lead to FIMCo exceeding overdraft limits and likelihood of loss significantly exceeding £1,000,000 for the year.
- 5.17. Under Model A, FIMCo loss for the 2020-2021 financial year is projected to be circa £800,000.

5.18. **FIMCO operation model B: Local & modified export season**

FIMCo re-tasks all existing staff to process approximately

- 5,000 new season lamb and yearling lamb
- 5,000 mutton
- All beef at close to status quo levels
- Employ additional 8 local staff
- Employ 1 Halal Supervisor

- Additional 17,000 mutton @ 1,000 per week for approximately 17 weeks 1st March 2021 until 30th June 2021.

- 5.19. This model is assumed to have limited impact on farmers income for Lamb and Beef, therefore the supply of Lamb and Beef is ignored in this analysis.
- 5.20. Mutton supply would fall from an historically optimistic number of 37,000 down to 22,000 animals (5000 plus additional 17,000). Model B impact would be an assumed loss of throughput of 15,000 mutton.
- 5.21. Farm loss given assumed to be 15,000 mutton at an average gross value of £12.00 per head or a total of £180,000. If average cost of transport/logistics of £2.00 per head is assumed the net loss to farms might be circa £150,000
- 5.22. Cull supply would fall from a conservative number of 12,000 down to zero animals giving an assumed loss in throughput of 12,000 culls.
- 5.23. Cull animals are loss making for FIMCo and as such are not sought by FIMCo. As a result, no mitigation value is assumed at this point in time. Considerable possibilities exist to move animals between farms for genetic and business improvement. Farmers are already exploring these options. DOA support may add value to this process in some instances.

5.24. FIMCo operation model B: Mitigation proposal

Based on mutton supply outlined in planning sheets plus “routine” opportunistic supply averaged over the past 3 years; all farms yet to supply mutton (maximum of 37,000 mutton) will receive a £5.00 per head payment via FIDC during February 2021.

Total cost: 37,000 x £5.00 per head = £185,000

- 5.25. FIMCo continues to process animals and payments for new season lamb; yearling lamb and beef as per normal. No mitigation actions for these livestock classes.
- 5.26. FIMCo continues to work with scheduled farm suppliers to process quality mutton for the three local markets plus the modified export market.
- 5.27. Farms supplying mutton after 1st February are paid by FIMCo as per price grid (less the £5.00 subsidy payment already received) along with normal payments for freight and logistics. Hauliers and other service providers paid as per normal schedules by FIMCo.
- 5.28. All farms continuing to work cooperatively with FIMCo on mutton supply (as per planning sheets) will receive second payment from FIDC during July of £5.00 per head for mutton not able to be processed by FIMCo but remaining available for supply. Excludes any supplier who has already been paid in full for any mutton actually supplied to FIMCo.

Projected total cost: 15,000 x £5.00/head = £75,000

5.29. FIMCo would have benefitted by £5.00 per head on actually numbers of mutton processed (up to 22,000 mutton at £5.00/head) with subvention adjustment a possible mechanism to reconcile difference.

5.30. Farms choosing not to work with FIMCo to maintain supply of quality mutton would be deemed as being ineligible for second tranche subsidy payment. As such farm payment by FIDC would be similarly reduced.

5.31. Summary:

The maximum payment under the proposed support package is £370,000. Farmers may receive more dependent upon quality of animals supplied to FIMCo but will necessarily reduce if the rural community is not co-operative in support of the proposed mitigation measures. In any event the three key local markets will be supplied and export customers will be maintained.

5.32. **Impact on FIMCo business under model B:**

FIMCo forecast a “normal year” (with an export season) business loss of £591,000 for the 2020-2021 financial year before the Brexit and Covid-19 risks included (£750,000).

Model A operations projected FIMCo business loss to increase to circa £800,000 for the 2020-21 financial year.

Model B operations projected FIMCo business loss of £700,000 for the 2020-2021 financial year resulting in an improvement to the FIMCo cashflow by a reducing the projected loss by £115,000.

Whilst the projected loss is still concerning, the conduct of a modified export season is forecast to improve the financial year performance of FIMCo by some £100,000. It should be noted that Model B projections include a 20% contingency factor in price/meat income, in fact the financial performance of FIMCo will remain positive until the prices fall to below 50% of those currently forecast.

If none of the additional circa 15,000 mutton slaughtered are sold there will be an additional net operational loss to FIMCo of £527K.

5.33. Model B operations would likely reduce FIG payments to farmers by £150,000 and payments to FIMCo by circa £100,000 representing a positive change of approximately £250,000.

6. Resource Implications

6.1. Financial Implications

6.1.1. It is not anticipated that there will be any additional budget implications beyond the existing budget appropriations for business and wider community support referenced in Exco paper 141/20.

6.1.2. The past approvals for Covid-19 economic support and spend to date excluding the Capital unsold wool purchase are incorporated in a new table below:

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6.1.3. The total unspent balance across all schemes previously approved by Members are identified below:

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6.2. Human Resource Implications

The delivery of this scheme will managed within existing resources within DNR and FIDC.

6.3. Other Resource Implications

None

7. Legal Implications

None

8. Environmental & Sustainability Implications

- 8.1. From the 2020 Farming Statistics we saw 20,350 sheep disposed on farm outside of FIMCo supply. This figure must be used cautiously as it includes animals that are killed/disposed of as well as those consumed on farm, used as dog food and those sold on to other farms. The decision by the FIMCo Board to cancel the full export season for 2021 will result in an increase in on farm culls and in number sold/traded with other farms. The environmental and animal welfare impacts that the FIMCo decision will cause will be partly mitigated by good monitoring and reporting of procedures so that interventions can happen early and be controlled.
- 8.2. If one or both mitigation models are deployed (Section 5), there could be an increase in the number of on farms culls (animals killed and disposed of) of between 15,000 and 32,000 if no other mitigation measures are pursued.
- 8.3. DNR staff alongside FLH are supporting farmers and farm managers with advice (upon request from farmers) about how they could trade surplus animals that were planned for slaughter in 2021 in order to reduce the number of additional on farms culls as much as possible.
- 8.4. Increased on farm culls may cause an increase in interaction with birds of prey and seabirds.

9. Significant Risks

- 9.1. This paper is in itself an example of risk mitigation. Whilst the decision of the FIMCo Board to work on the basis of no export season has a knock-on impact on the farming and rural community, there was identified financial risk of in excess of £600,000 identified pertaining to transport and quarantine issues for overseas workers alongside the current marketing difficulties for export cull product with the unknown risk of Brexit also causing concern.
- 9.2. To progress with an export season at FIMCo with delivery of services by a UK workforce is likely to substantially push the figure of financial risk quoted in 9.1 above upwards.
- 9.3. Any decision to bring significant numbers of workers into the Falklands from countries such as South Africa and Chile is considered a public health risk due to the prevalence of Covid, in particular the new more virulent strains.
- 9.4. The future operating model of FIMCo needs to be resolved, costs of the present facility are high, further work is being undertaken in an attempt to provide an effective long-term sustainable solution for the economy of the Falkland Islands.
- 9.5. Farm operation risks are summarised below:

9.5.1. **All available fodder on the Falkland Islands is not utilised.** The available fodder is on private land and FIG land. Private land utilisation will be left up to market forces and farmer to negotiate use of any underutilised fodder and potential stock to graze on their land. Potential FIG land is currently being identified and it is planned to have an expression of interest (EOI) process to allow farmers to graze FIG land for a period of up to 4 years. This EOI will be a cost neutral lease between FIG and the farmer for costs such as fencing, water, stock management, etc. It is planned the EOI's will be advertised in early January 2021.

9.5.2. **That the wrong animals will be culled from a maximisation of profit point of view.** Depending on the farm business model the sheep to be kept need to be those who return the most profit in feeding them for the next 6 or 12 months, that is only killing the least productive sheep. For example, wethers return more profit than ewes when feed is limited as all the feed is converted into high quality wool. DoA advice is one support measure for this issue and the offer of this support has been made to farmers.

9.5.3. **Poor monitoring of the impact of the FIMCo decision.** This will be mitigated by capturing the culls in the DoA farmer statistics in both Part A and Part B. The current Part A is not fit for purpose to capture this information and amendments have been drafted and will be presented to the next AAC. This is an annual point of time monitoring, monitoring by farmers may be required to inform support mechanisms after the 1st April 2021.

9.5.4. **Poor uptake of business support to purchase stock or implement other mitigation measures from providers such as FIDC.** This is best mitigated by publicising support from DoA to help compile loan requests to providers such as FIDC.

10. Consultation

10.1. The principles of the mitigation measures discussed in this paper have been discussed with suppliers at two Rural Business Association events held in Stanley on the 14th December and at Fox Bay on the 18th December.

10.2. Members of the Legislative Assembly were briefed prior to the RBA events and prior to submission of this paper.

10.3. The DoA team, FIMCo Board, FIDC (as shareholders of FIMCo) and the Chair of the RBA have reviewed this paper and comments considered.

11. Communication

11.1. Following approval of this paper, DNR will advise FIMCo, FIDC and the internal team, so that they can prepare to facilitate this Scheme as approved.

11.2. FIMCo suppliers and the wider farming community will be advised of the policy agreed via an email and a press release will be draft with support from the FIG Media team.