



***FALKLAND ISLANDS
BUSINESS CLIMATE
SURVEY 2009***

FALKLAND ISLANDS
DEVELOPMENT CORPORATION

About the survey

The Business Climate Survey has been carried out biennially since 2003, making this survey the fourth of its kind. Since the Falkland Islands Development Corporation (FIDC) was established in 1983 it has not only provided business advice and support, but also contributed to major projects such as the wind farm, aquaculture, air access, shipping and the meat plant. A fundamental part of the remit of FIDC is to encourage and assist in the economic development of the Islands, as well as addressing problem areas common to existing businesses. With this in mind the questionnaire has evolved to provide additional supporting information for FIDC, and to assist in identifying areas that might benefit the economy with further investment or research. The survey is a particularly important exercise for FIDC as it helps to make sure that our activities are aligned with the needs and priorities of businesses. It is important that we review these issues on a regular basis in order to make sure we are adapting to new demands and issues that effect the development of the Islands economy while remaining true to the original purpose of the survey, which was to gauge the opinions of the public and private sectors, regarding the current and future business climate of the Falkland Islands economy.

The Report

This report sets out the most significant findings of the 2009 survey. Throughout the report, results from 2009 are shown in red, 2007 in blue, 2005 in green.

N.B: All percentages have been rounded to the nearest whole number.

If you would like more information on the results, or would like to discuss them or the issues they raise with a member of FIDC staff, please feel free to contact us on 27211-email lbuckland@fidc.co.fk or write to us at Shackleton House, West Hillside, Stanley.

Sector	% Of sector to Return survey			% Of total Recipients		
	2009	2007	2005	2009	2007	2005
Farming	32%	40%	41%	27%	27%	27%
Fisheries	67%	33%	58%	5%	7%	7%
Tourism	43%	40%	31%	11%	12%	13%
Retail	44%	43%	45%	15%	12%	13%
Trades & Services	11%	22%	24%	23%	24%	18%
Technology (1 st year sector separation)	13%	N/A	N/A	9%	N/A	N/A
Construction	18%	20%	25%	4%	2%	3%
Other	N/A	22%	83%	N/A	5%	5%
Falkland Islands Government	41%	16%	39%	6%	10%	12%

Who received the survey?

301 businesses from eight different sectors were sent questionnaires. Of these, nine were received by dormant companies, 3 others had ceased to trade altogether, and a further 5 were returned due to not having a postal retrieval system while absent from the Islands. This meant that 284 businesses were in receipt of the survey, 10 less than the 294 businesses recorded in 2007. The overall response rate recorded was 33%.

In order to get a clearer picture of which sectors were responding to the survey, the questionnaires were colour coded; this allowed for the reclassification of those that selected 'other' as their business sector into the category that best identified the business type. Similarly when a respondent selected a different category to what had been expected, it enabled the statistics to be updated accurately.¹

As FIDC was able to collate how many surveys had been received and responded to by each sector, we could identify if the number of responding businesses operating in these sectors had expanded or shrunk. Farming remains the same at 27%, while Fisheries & Tourism now represent smaller proportions of the total business sectors. In contrast the Retail, Construction, Technology, and Trades & Services show a modest area of growth. (For the first time Technology has become a separate sector)

¹ Nearly all of these reclassifications were made to the business sector selected by respondents.

Obstacle	Ranking according to Year		
	2009	2007	2005
Inward/Outward Freight Costs ²	1	1 (8)	1 (=3)
Distance to Market	= 2	4	=3
Energy & Power Costs ³	= 2	2 (5)	7(6)
Communications Network ⁴	4	N/A	N/A
Falkland Islands Government	5	14	15
Number of Customers	= 6	=6	=3
Red Tape	=6	=6	15
Cost of Labour	8	3	2
Air Links	9	9	13
Freight Frequency	9	10	=20

Obstacles to Development

One of the most informative questions asked in the survey is 'the biggest obstacles to my business growth are?' This year some new possible obstacles to development were added to reflect those listed in 'other' from the last survey. Likewise some previously independent obstacles were combined - 'Inward freight costs' and 'Outward freight costs' became 'Inward/Outward Freight Costs', while 'Internal Communications' & 'External Communications', rated at 19 & 18 respectively in 2007, were replaced with the 'Communications Network' that is now at No 4.

The findings from this part of the survey are comparable with those of 2007, with the combined 'Inward/Outward Freight Costs' continuing to top the table for the 4th consecutive survey, while the previously fourth placed 'Distance to Market' now shares second spot with 'Energy & Power Costs'. 'FIG' has moved from 14th to 5th and is the only newcomer to the top 10, while 'Cost of Labour' has fallen out of the top 5 for the first time since the surveys began.

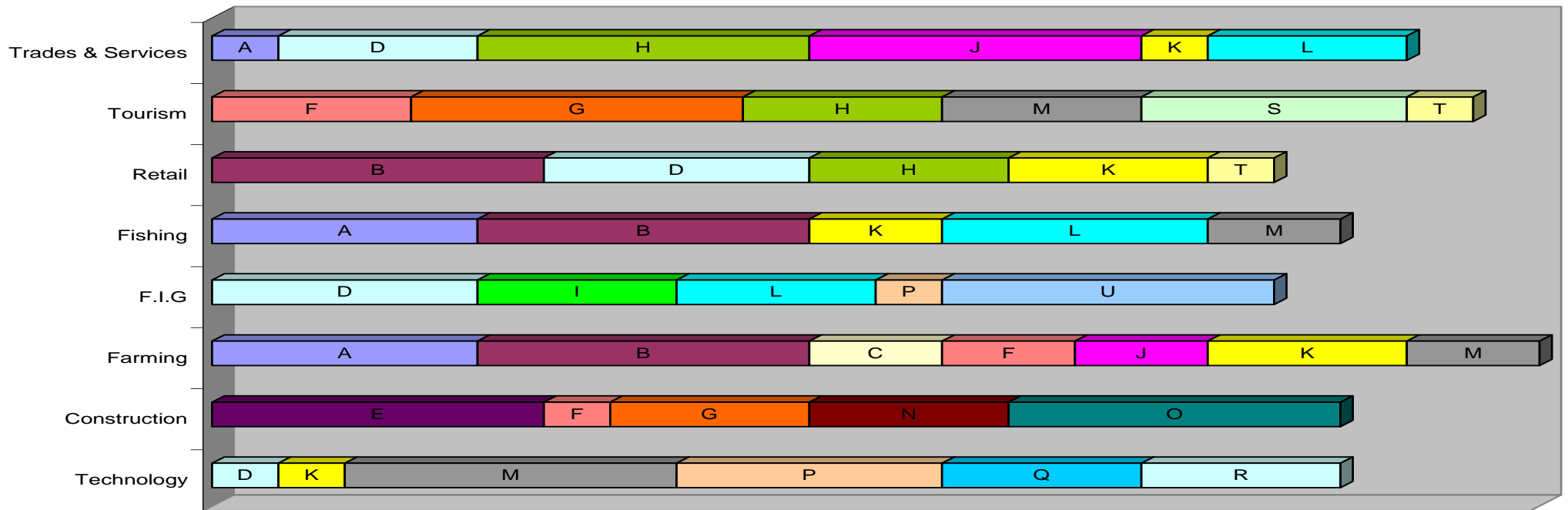
Interestingly, when asked what FIDC could do to help with selected obstacles, a number of businesses highlighted areas that they had not selected as a major obstacle to development. These included requirements for land, warehousing, cold storage, obtaining finance, market information and fishing JV Partners.

² This year Inward & Outward Freight Costs as an obstacle have been combined, the position of Outward freight costs in previous surveys appears in brackets and Inward freight costs as not in brackets.

³ Energy & power costs have also been combined on this survey; in order to remove the confusion in the measurable differences between them, Power Cost rankings of previous surveys appears in brackets.

⁴ This replaced the two separate areas of Internal & External communications that were previously asked which were ranked =14th & = 13th respectively in previous surveys.

Obstacles According to Business Sector



Legend Key:

A = Distance to Market,	E = Lack of Labour	I = International Politics	M = Communications Network	Q = Office Availability
B = Inward/Outward Freight Costs	F = Cost of Labour	J = Internal Transport	N = Too Much Competition	R = Insurance
C = Freight Frequency	G = Red Tape	K = Energy/Power Costs	O = Road Network	S = Industry Co-Coordinator (tourism)
D = Number of Customers	H = F.I.G	L = Air Links	P = Training	T = Immigration
				U = Obtaining Finance

Obstacles According to Sector

The graph above shows the top 5 perceived obstacles to development per sector, confirming that some, such as energy/power cost, are sector specific and are not recorded as main obstacles for FIG, Tourism and Construction, while the cost of labour is a problem for Tourism, Farming and Construction. This identifies that there is not a 'one size fits all' solution to assisting businesses and that geographical location is often key to the nature of obstacles facing an industry.

Sector	Large Improvement		Slight Improvement		Stay the Same		Slight Decline		Large Decline	
	2009	2007	2009	2007	2009	2007	2009	2007	2009	2007
Construction	0%	N/A	100%	N/A	0%	N/A	0%	N/A	0%	N/A
Technology,⁵	33%	27%	33%	40%	33%	33%	0%	0%	0%	0%
Farming	12%	4%	20%	33%	28%	48%	28%	11%	8%	4%
Trades & Services	29%	27%	57%	40%	14%	33%	0%	0%	0%	0%
Fisheries	10%	43%	40%	43%	30%	14%	20%	0%	0%	0%
F.I.G	0%	21%	57%	50%	29%	29%	14%	0%	0%	0%
Retail	21%	46%	53%	23%	16%	23%	5%	0%	5%	7%
Tourism	0%	10%	54%	40%	31%	40%	8%	10%	0%	0%
Overall Percentage⁶	13%	19%	43%	38%	24%	36%	14%	5%	4%	2%

Prospects for the Future: 24 months

Two related questions were asked: one regarding the perceived prospects for each business over the next 24 months, and the second regarding the expected business performance over the next 12 months.⁷

The optimism of previous surveys has declined; this is most noticeable in the 'Farming' & 'Fisheries' sectors where a drop in trade of 36% & 20% are expected with in the next 2 years. However, 'Trades & Services' and 'Technology' sectors have an expectation for increasing their business prospects over the same time period.

⁵ In 2007 the Technology sector was recorded within 'Commerce, Trades & Services'. Commerce is now divided between Retail and the new Technology sector

⁶ Not all respondents answered this question, but were included in the division of percentage.

⁷ Question 5 asked: I believe the prospects for my business in the next 24 months are?

Sector	Expand		Remain the same		Downsize		Start new Business		Close		Sell	
	2009	2007	2009	2007	2009	2007	2009	2007	2009	2007	2009	2007
Technology,	33%	N/A	67%	N/A	0%	N/A	N/A	N/A	0%	N/A	0%	N/A
Construction	0%	N/A	100%	N/A	0%	N/A	0%	N/A	0%	N/A	0%	N/A
Farming	16%	38%	56%	55%	28%	0%	N/A	4%	0%	0%	0%	3%
Trades & Services	57%	67%	43%	33%	0%	0%	N/A	0%	0%	0%	0%	0%
Fishing	30%	86%	60%	14%	10%	0%	N/A	0%	0%	0%	0%	0%
F.I.G	43%	75%	43%	25%	0%	0%	N/A	0%	0%	0%	0%	0%
Retail	47%	55%	47%	9%	5%	9%	N/A	9%	0%	0%	0%	18%
Tourism	31%	34%	54%	50%	8%	0%	N/A	8%	0%	0%	0%	8%
Overall Percentage	33%	53%	54%	38%	12%	1%	N/A	4%	0%	0%	0%	4%

Prospects for the Future (12 Months... continued)

Most businesses that are predicting a 'large or slight improvement' expect to do so by 'expanding' over the next 12 months.

Notably none of the respondents plan to 'sell' or 'close' or 'start a new business' in the next year, and the majority believe that their prospects will 'remain the same'.

In comparison the variance between expected 'export expenditure' and 'import revenue', shows that, with the exception of the Fisheries and Construction sectors, most businesses expect to increase spending on imported goods but do not anticipate an increase in export revenues.

Private Sector View	Businesses		
	2009	2007	2005
Far too big	37%	22%	21%
Slightly too big	17%	25%	30%
About right	14%	36%	33%
Slightly too small	8%	5%	11%
Far too small	3%	2%	5%
Did not answer	21%	10%	N/A

FIG

In response to our question on the role of the Falkland Islands Government within the economy,⁸ more of the responding businesses believe that FIG plays 'far too big' a role in the economy, than in previous years, while fewer businesses feel it is only 'slightly to big'.

In comparison with private sector responses, 43% of Government heads of department that responded agreed that FIG had 'slightly too big' a role in the economy. While 57% felt that the role was 'about right', in contrast only 14% of the private sector concurred that this is the case.

Levels of satisfaction between sectors also vary greatly with over 71% of Trades & Services believing FIG has too great a role in the economy. Reducing levels of satisfaction are recorded by Fisheries, Tourism, Retail, Technology, and Farming, while Construction is divided between 50% thinking FIG's role is about right and the other 50% thinking it is too small.

⁸ Question 8: The role of the Falkland Islands Government in the Economy is:

	Average score: 1= poor, 5= good			Change 2005-2007
	2009	2007	2005	
Confidentiality	4.0	4.0	4.0	0.0
Staff quality	3.8	3.4	3.8	+0.4
Speed	3.4	3.4	3.7	0.0
Responsiveness	3.7	3.4	3.6	+0.3
Expertise	3.7	3.2	3.5	+0.5
Overall	3.5	3.3	3.8	+0.2

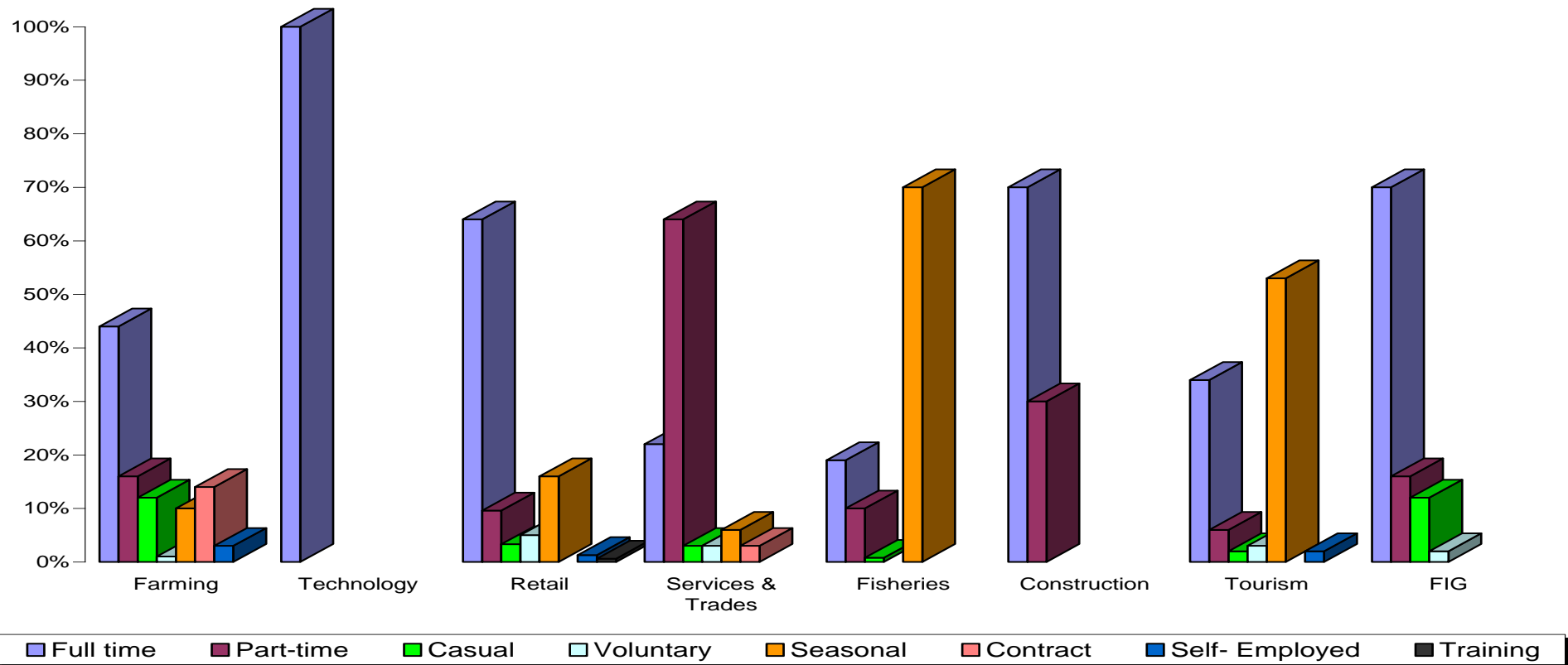
FIDC performance rating:

Since the first Business Climate Survey was carried out back in 2003 we have used the opportunity to gain feedback on our performance. Unlike the previous surveys, we only asked those that had actually received assistance from FIDC to rate our performance, which allowed us to monitor actual as opposed to reputational performance.

With the exception of confidentiality and speed, the performance rating for FIDC has seen a rise on the findings of 2007. However, none of the respondents from the Fisheries and Construction sectors indicated that they had ever received assistance from FIDC that they felt able to score on. Trades and Services recorded only a 14% usage, but where applicable scored FIDC's performance highly, as did the Retail sector and Technology. Results became more variable among the Tourism & Farming sectors who recorded higher usage of services, with Farmers giving an overall rating of 3, compared to Tourisms' 2.7.

Should FIDC currently not provide the assistance you are looking for, you should contact us directly, either by phone 27211 or email lbuckland@fidc.co.fk and FIDC will consider/review your request.

Employment



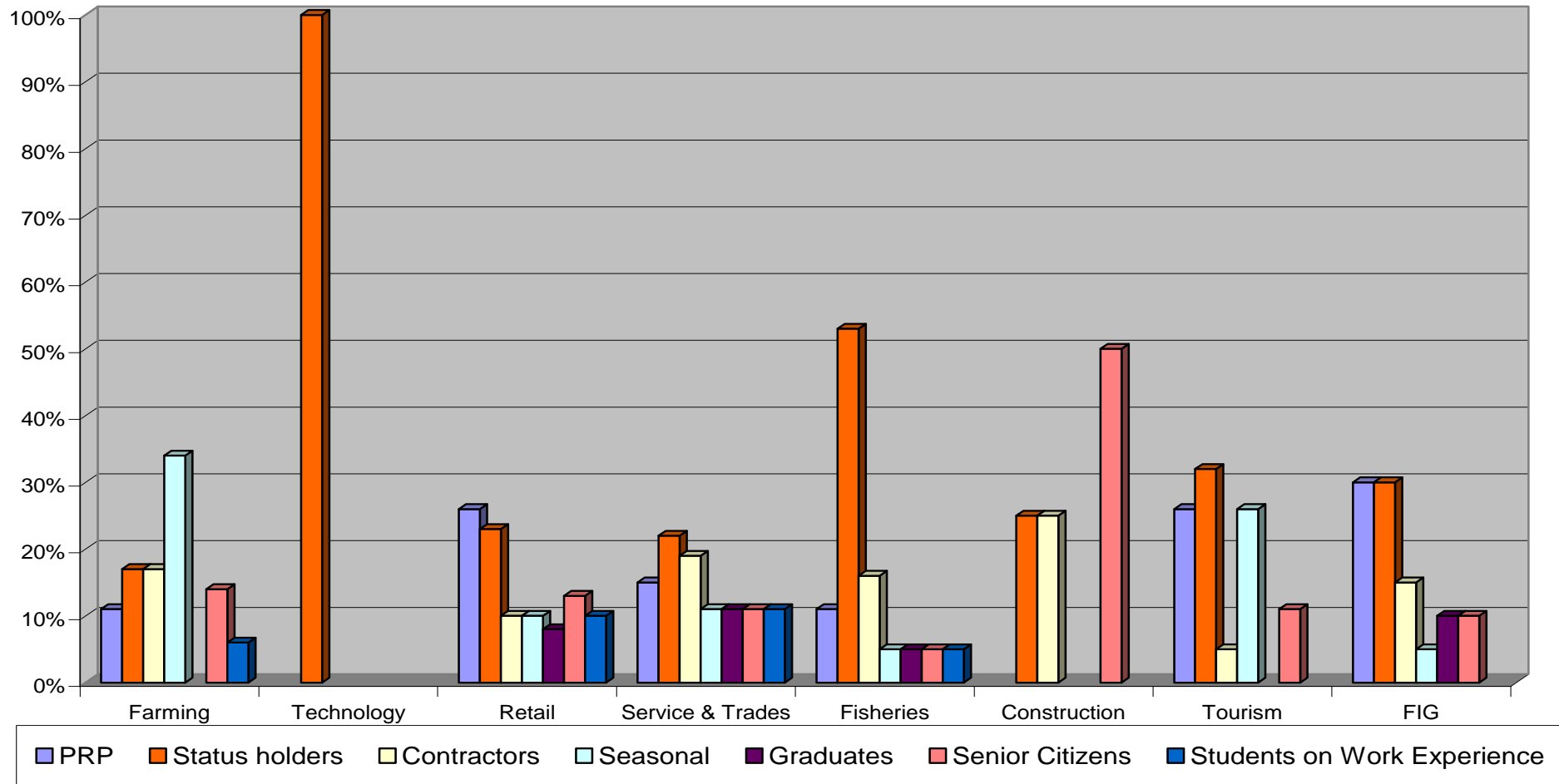
Type of Employment

As can be seen by the chart above, all sectors, with the exception of 'Technology', are influenced by seasonal trends. The season for most sectors is the period September to April, with the exception of Fisheries, which does not have a large local employee base.⁹ This would mean nearly a third of the work force could be transient in nature.

Very few respondents class themselves as self-employed, and only in the Farming, Retail and Tourism sectors was this option selected. Technology, Fisheries and Construction are the only sectors that do not rely on a degree of voluntary participation among their workforce. All business respondents with the exception of Technology employ people on a part-time or casual basis, suggesting some degree of flexibility among the workforce.

⁹ Construction also employs on a seasonal basis which is recorded in the following graph under 'Demographics' but was not submitted in both categories by respondents.

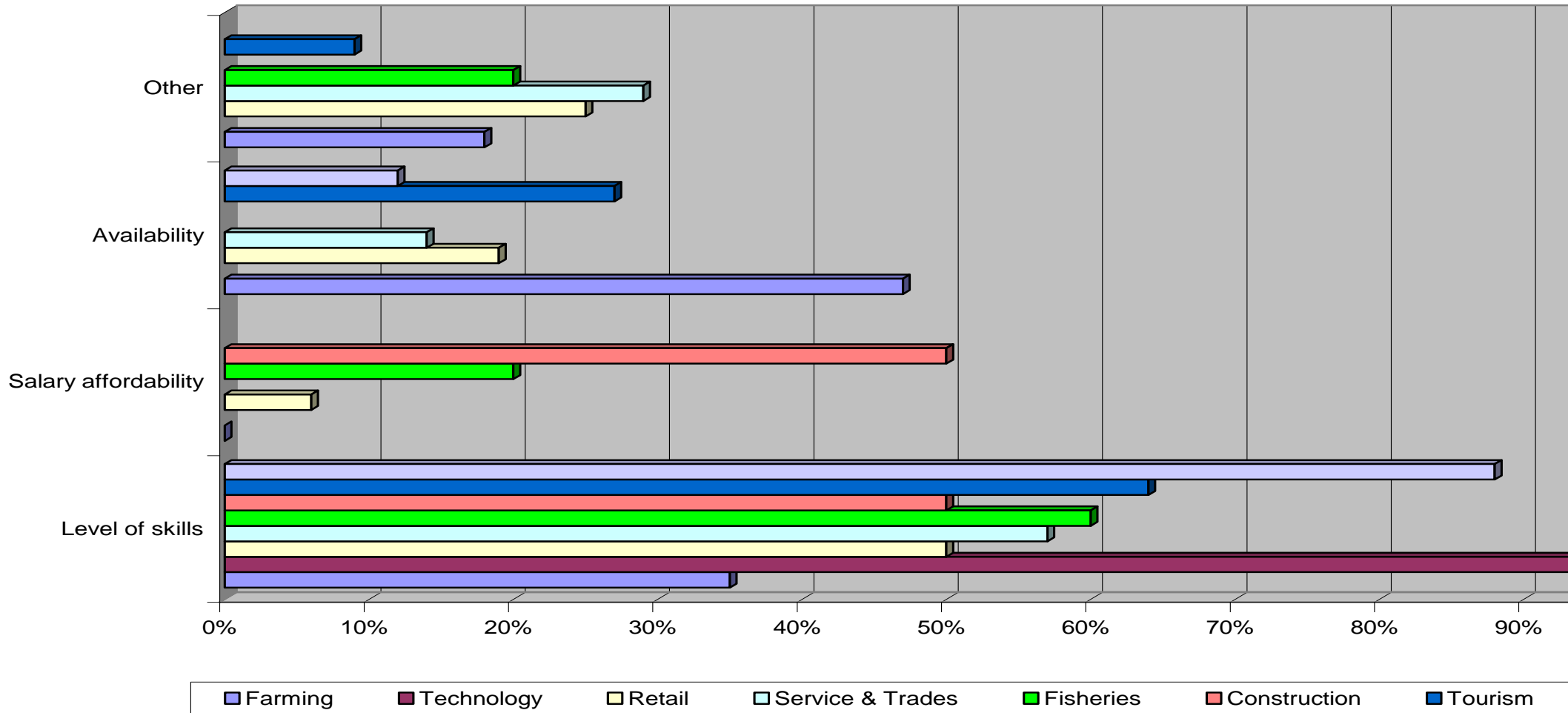
Demographics of Employees per Sector



Employee Demographics

The Falklands Business Sectors employ a wide range of employees from available sources, with only Graduates and Students on Work Experience having a limited employment opportunity. Notably Senior Citizens seem to be well-utilised, especially compared with Graduates, suggesting that work experience is a key employment requirement. Likewise all sectors have employed contractors, but respondents from Tourism, Technology, FIG and Construction did not record any Students on Work Experience, and only half of all sectors included Graduates among their workforce.

What Sectors Looked for in Potential Employees



What Sectors Looked for in Potential Employees.

The level of skills is the most desirable attribute to employment in all sectors other than Construction and Farming. The Farming sector classes 'Availability' as its primary consideration when engaging a potential employee, while the Construction sector is more influenced by 'Affordability'.

Obstacles to development: the full results

The following shows the percentage of respondents who selected the following as major obstacles to development. The scores have been rounded to the nearest percentage point.

Obstacle	2009 %	2009Rank	2007 Rank	Divergence
Inward/Outward freight costs	49	1	1 (8)	-
Distance to Market	33	2	4	+ 2
Energy/Power Costs	33	3	2 (5)	- 1 (+2)
Communications Network	31	4	N/A	N/A
F.I.G	26	5	=14	+ 9
Red Tape	24	6	=6	-
Number of Customers	24	7	=6	- 1
Cost of Labour	22	8	3	- 5
Freight Frequency	21	9	=11	+ 2
Air Links	21	10	9	-
Lack of Labour	19	11	=11	-
Internal Transport	17	12	16	+ 4
Infrastructure	16	13	=11	- 2
Obtaining Finance	15	14	17	+ 3
International Politics	15	15	=14	- 1
Road Network	14	16	=22	+ 6
Deep Water Port	11	17	13	- 4
Taxation	10	18	19	+ 1
Immigration	9	=19	18	- 1
Lack of Market Information	9	=19	N/A	N/A
Access To Land	9	=19	N/A	N/A
Economic & Regulatory Policy	8	22	N/A	N/A
Exchange Rate	8	22	N/A	N/A
Industry Co-ordinator (tourism)	7	24	19	- 5
Too Much Competition	6	25	24	- 1
Insurance	6	=26	N/A	N/A
Expertise	6	=26	29	+ 3
Warehouse Availability	6	=26	N/A	N/A
Cold store Availability	6	=26	=34	+ 8
Internet/Computing Expertise	4	=30	=22	- 8
Office Availability	4	=30	=34	- 4
Professional Advisors	2	=32	=30	- 2
Training	2	=32	=30	- 2
Legal Services	2	=32	28	- 4
Business Exit Options	2	=32	=30	- 2
Fishing JV Partners	1	=36	=34	- 2
Too Little Competition	1	=36	37	+1
Valuation Services	1	=36	N/A	N/A
Book-Keeping	0	39	=30	- 9