

BUSINESS CLIMATE SURVEY REPORT 2011



FALKLAND ISLANDS
DEVELOPMENT CORPORATION

About the survey

This is the fifth time that the biennial Business Climate Survey has been undertaken. Like its predecessors its primary function is to measure the opinions of the public and private sectors, regarding the current and future business climate of the Falkland Islands economy.

The survey also continues to provide an important feedback source for the Falkland Islands Development Corporation, and assists to enable the identification of obstacles that might require future development or resources.

The Report

This report is modelled on previous versions and shows where applicable the results for previous years, in order to clarify these easily they are colour coded as follows:

2011 results are shown in red

2009 results are shown in blue

2007 results are shown in green

Earlier surveys may be referred to where the results are significant; they will be identified by year.

N.B: All percentages have been rounded to the nearest 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 either by phone: 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		
	2011	2009	2007	2011	2009	2007
Farming	32	32	40	25	27	27
Fisheries	57	67	33	7	5	7
Tourism	33	43	40	9	11	12
Retail	21	44	43	14	15	12
Trades & Services	31	11	22	26	23	24
Technology	38	13	N/A	8	9	N/A
Construction	50	18	25	5	4	2
Falkland Islands Government	28	41	83	7	6	10
Other	N/A	N/A	39	N/ A	N/A	5

Who received the survey?

In 2009 284 businesses (including FIG departments) from 8 different sectors were given the opportunity to participate in the survey. This time the survey was sent to a total of 288 businesses and 20 FIG departments, across the same amount of sectors. This year most of the surveys were sent out electronically, with hard copies available on request, however the reduced

response rate of 24%, suggests that this should not be the chosen format of future surveys.

It was also noticeable that for the first time since the surveys began in 2003, that Farming is no longer the largest business sector, having been replaced by the increased amount of businesses offering Trades and Services.

Obstacle	Ranking according to year		
	2011	2009	2007
International Politics	1st	=15 th	=14 th
Energy & Power Costs	2nd	3rd	N/A
Number of Customers	=3rd	7th	6th
Inward/Outward Freight Costs	=3rd	1st	1st
Red Tape	4th	=6th	=6th
Air Links	5th	10th	9th
Distance to Markets	6th	=2nd	= 4th
Lack of Labour	7th	11th	=11th
Cost of Labour	8th	8th	3rd
Freight Frequency	9th	9	11
Access to Land	10th	=19th	N/A

Obstacles According to Development

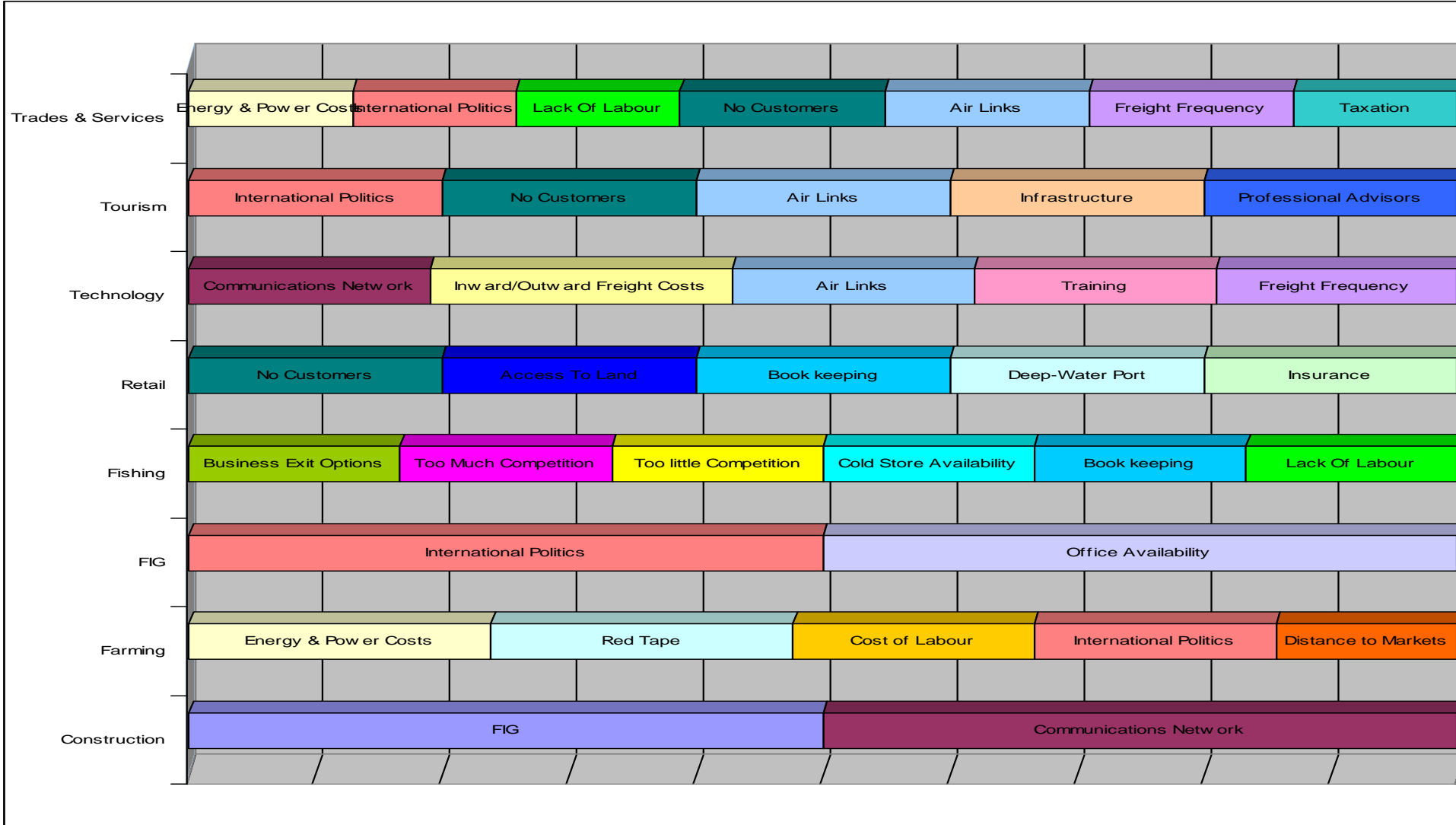
All businesses were asked to rate a list of obstacles on a scale: 3 representing a Major Problem, 2 a Minor Problem, and 1 Not a Problem, this year it was not surprising with recent events to see International Politics as Number 1 in the obstacle to development, this displaced inward/outward freight costs which dropped to number 3 for the first time in 4 years.

The results from this survey showed two new obstacles entering the top ten for the first time; they were the Access to Land which jumped 9 places, and Lack of Labour which rose 4 places.

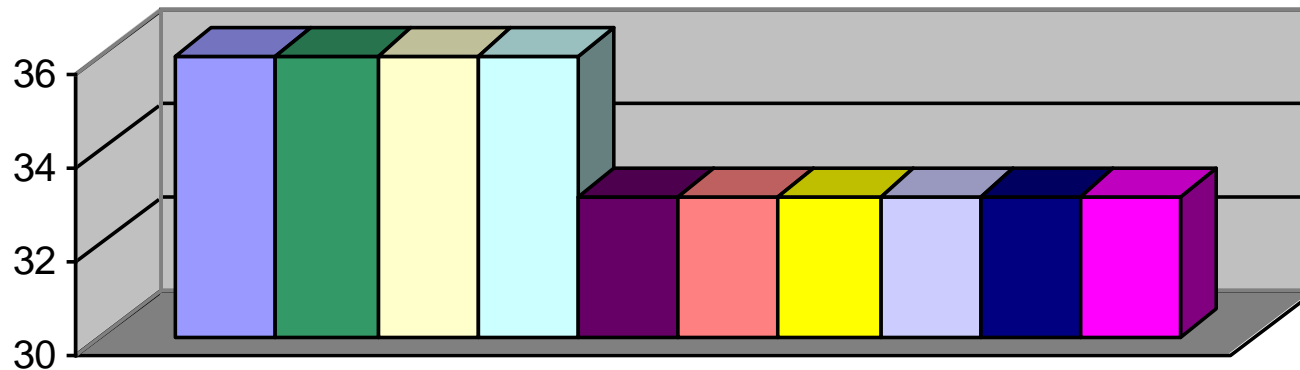
However it is noteworthy that if all the Minor Problems were totalled and added to the Major problems, FIG would join International Politics as a Major problem, and the Communications Network and Taxation would also appear in the top 10.

Valuation and Internet/Computing Expertise Services rated the least of a problem in the Islands followed by Lack of Market Information, showing that the Islands are maintaining a good supply of advisement within those areas.

Obstacles According to Sector



Not an Obstacle to Development



- | | | |
|------------------------------|--------------------------------|-------------------------|
| ■ Lack of Market Information | ■ Internet/computing expertise | ■ Valuation Services |
| ■ Too little Competition | ■ Professional Advisors | ■ Office Availability |
| ■ Warehouse Availability | ■ Cold Store Availability | ■ Business Exit Options |
| ■ Fishing JV Partners | | |

While there was a variance in the perception of the obstacles to development, the percentages of those that saw the above as not being a problem, was consistent across the sectors, with the exception of FIG who did have 'Office Availability' as an obstacle, and Fishing who saw 'Too Little Competition' to be an obstacle.

Prospects for the Future: 24 months

Sector		Construction	Farming	FIG	Fisheries	Retail	Technology	Tourism	Trades & Services
Large Improvement	2011	0%	13%	0%	0%	0%	0%	33%	25%
	2009	0%	12%	0%	10%	21%	33%	0%	29%
Slight Improvement	2011	50%	63%		50%	67%	67%	33%	63%
	2009	100%	12%	0%	10%	21%	33%	0%	29%
Stay the Same	2011	50%	25%	100%	50%	23%	23%	33%	0%
	2009	0%	28%	29%	30%	16%	33%	31%	14%
Slight Decline	2011	0%	0%	0%	0%	0%	0%	0%	13%
	2009	0%	28%	14%	20%	5%	0%	8%	0%
Large Decline	2011	0%	0%	0%	0%	0%	0%	0%	0%
	2009	0%	8%	0%	0%	5%	0%	0%	0%

We asked businesses to tell us how they envisaged their prospects for the next two years; overall all Sectors forecasted a level of growth, with approximately a third forecasting that they expected their business would stay the same. Only Trades & Services predicted a slight decline in business.

Prospects for the Future – 12 months

Sector		Construction	Farming	FIG	Fisheries	Retail	Technology	Tourism	Trades & Services	Overall Percentage
Expand	2011	50%	50%	0%	50%	67%	67%	33%	50%	50%
	2009	0%	16%	43%	30%	47%	33%	31%	57%	33%
Remain The Same	2011	50%	50%	100%	50%	0%	33%	67%	38%	44%
	2009	100%	56%	43%	60%	47%	67%	54%	43%	0%
Downsize	2011	0%	0%	0%	0%	33%	0%	0%	13%	6%
	2009	0%	0%	0%	0%	0%	0%	0%	0%	0%
Start New Business	2011	0%	0%	0%	0%	0%	0%	0%	0%	0%
	2009	0%	0%	0%	0%	0%	0%	0%	0%	0%
Close	2011	0%	0%	0%	0%	0%	0%	0%	0%	0%
	2009	0%	0%	0%	0%	0%	0%	0%	0%	0%
Sell	2011	0%	0%	0%	0%	0%	0%	0%	0%	0%
	2009	0%	3%	0%	0%	18%	0%	8%	0%	4%

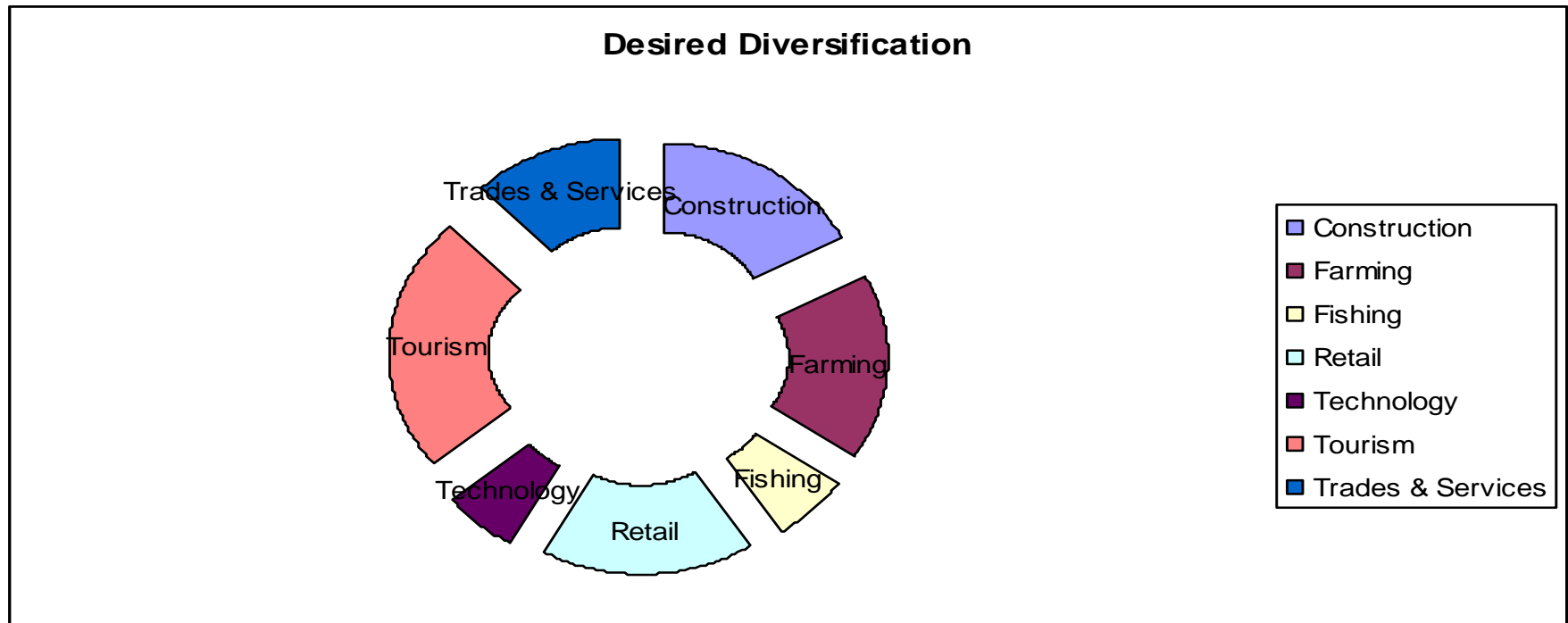
Similar to the prospects of the next 2 years, most businesses foresaw a growth within the next 12 months, with only a few businesses within the Retail sector expecting to Downsize. It is noteworthy that this section also commented on an expectation of seeing their profit margins impacted by increased import cost, which they attributed to International Political pressures.

The Future of your business- diversification and impediments

In Question 9 we asked if you had considered diversifying your business which was followed by Question 10's 'what (if anything) is stopping you from diversifying'?

64% of responder's have or had considered diversifying their business, of which the majority were deterred mainly by lack of time and access to finance, a few were further restricted by not being able to access the land required for expansion, and a minority by their location. Less than 1% was restricted by work permits and age, with a further 2% being restricted by manpower.

Out of those that were considering diversification, only one did not come from the following sectors: Construction, Farming and Trades & Services. The most common areas chosen for expansion into were Tourism, Agriculture, and Retail & Construction.



The Falkland Islands Government's Role in the Economy:

Every survey has asked this question of both Business's and Government departments alike. This time 85% of Responders chose to select an option, with Government departments being split 50/50 between FIG being 'About Right', and 'Slightly to Big'. Fisheries and Trades & Services were more likely to find FIG 'Far too Big' , while Farming businesses voted FIG 'About Right' a feeling shared by the majority of the Retail & Construction companies.

Private Sector View	Businesses			
	2011	2009	2007	2005
Far too big	21%	37%	22%	21%
Slightly too big	27%	17%	25%	30%
About right	30%	14%	36%	33%
Slightly to small	6%	8%	5%	11%
Far to small	0%	3%	2%	5%
Did not answer	15%	21%	10%	N/A

FIDC Performance Rating:

	Average Score: 1 = Poor, 5 = Good			Change 2009-2011
	2011	2009	2007	
Confidentiality	4	4	4	0
Staff Quality	3.7	3.8	3.4	- 0.1
Speed	3.4	3.4	3.4	0
Responsiveness	3.6	3.7	3.4	- 0.1
Expertise	3.7	3.7	3.2	0.0
Overall	3.6	3.5	3.3	+0.1

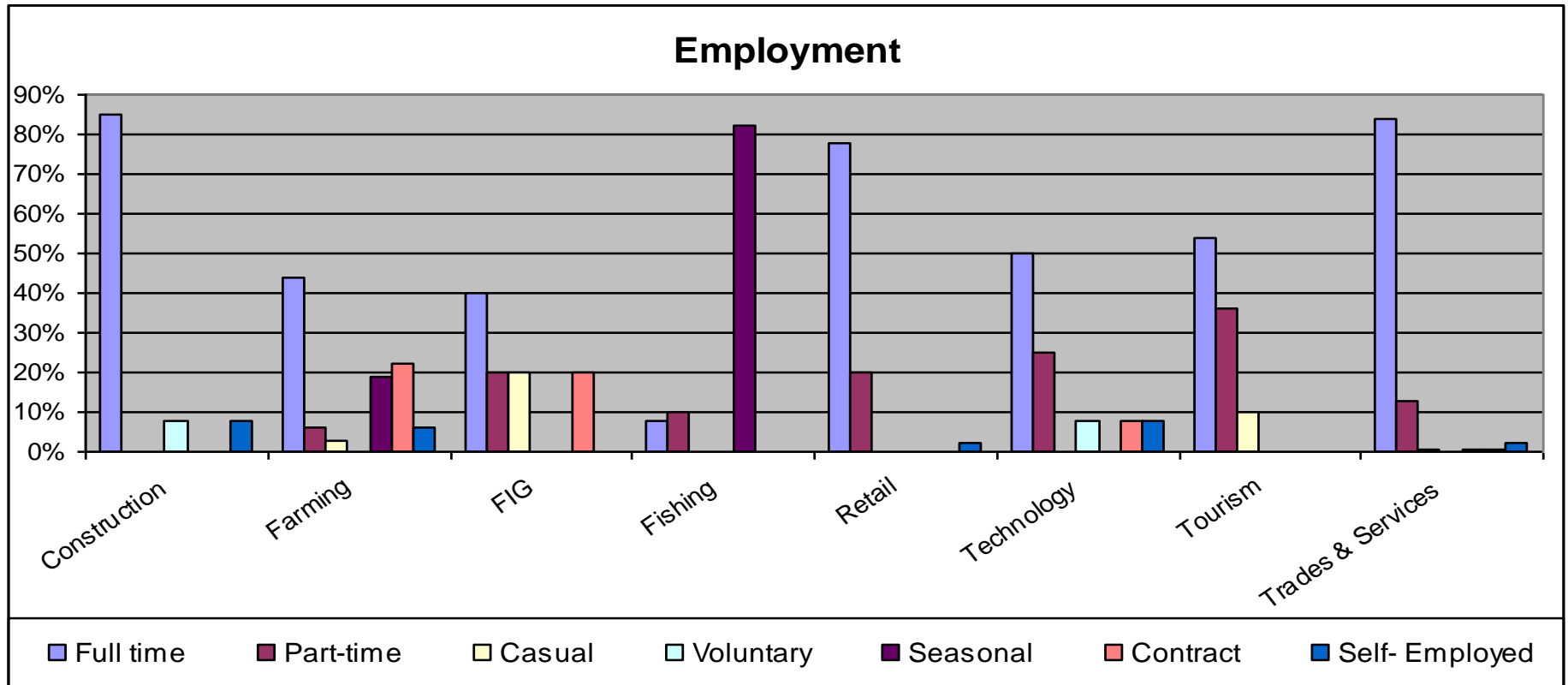
In accordance with all our previous Surveys we have used this opportunity to evaluate our performance, as rated by the service users.

This time the survey has revealed that we have lost some respect from our users in terms of 'Staff Quality' and 'Responsiveness'. The main users of FIDC were the Farming and Technology Sectors, and their ratings gave the greatest variance in results. The Farming Sector was the least happy with our performance with ratings as low as 2.6 for Speed, while the Technology Sector scored FIDC 4.5.

FIDC's overall performance was rated as higher than it had been any survey since 2005, when an average score of 3.8 was achieved.

The Staff at FIDC continue to look for ways in which to improve the services they offer, and welcome any constructive feedback that businesses may offer.

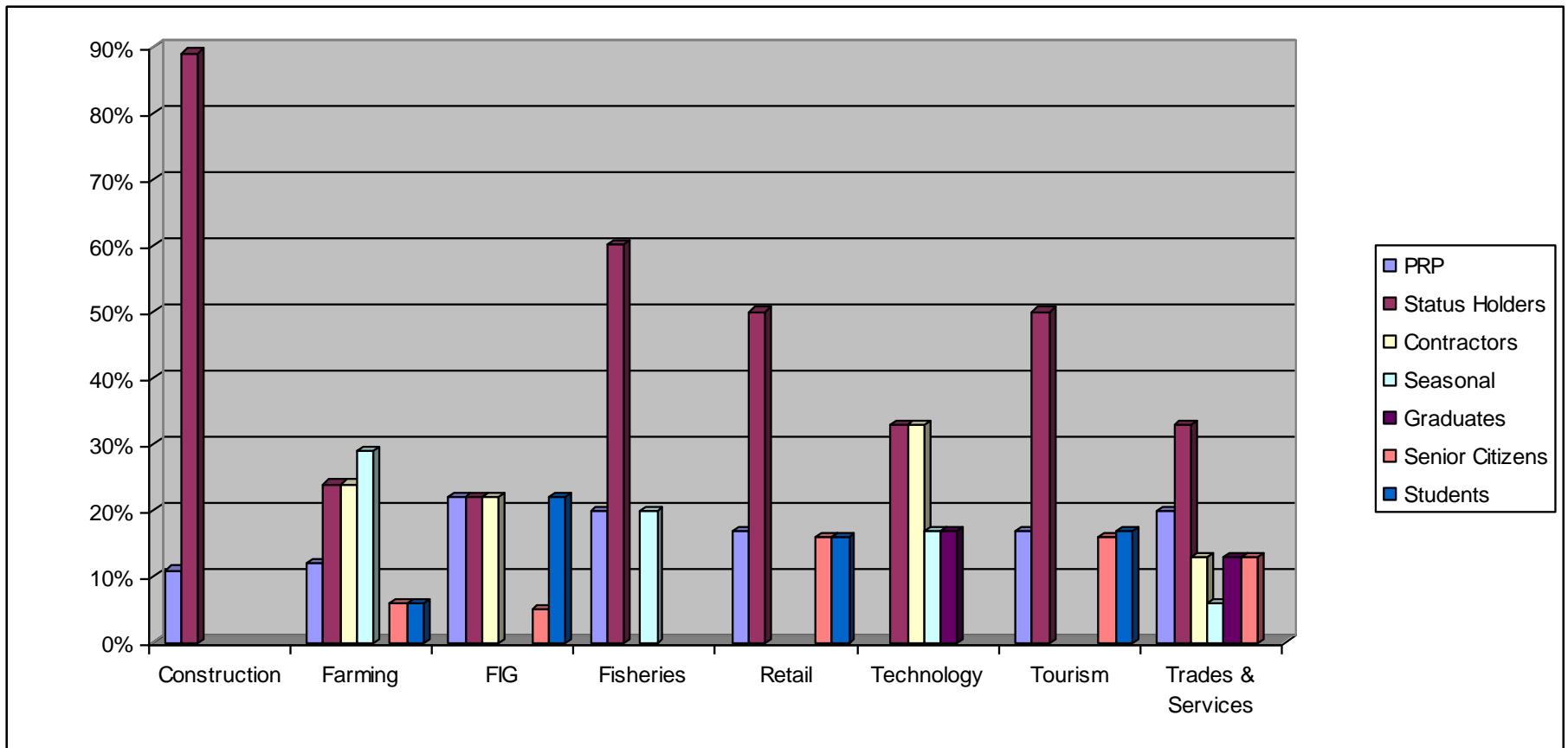
Employment



Type of Employment

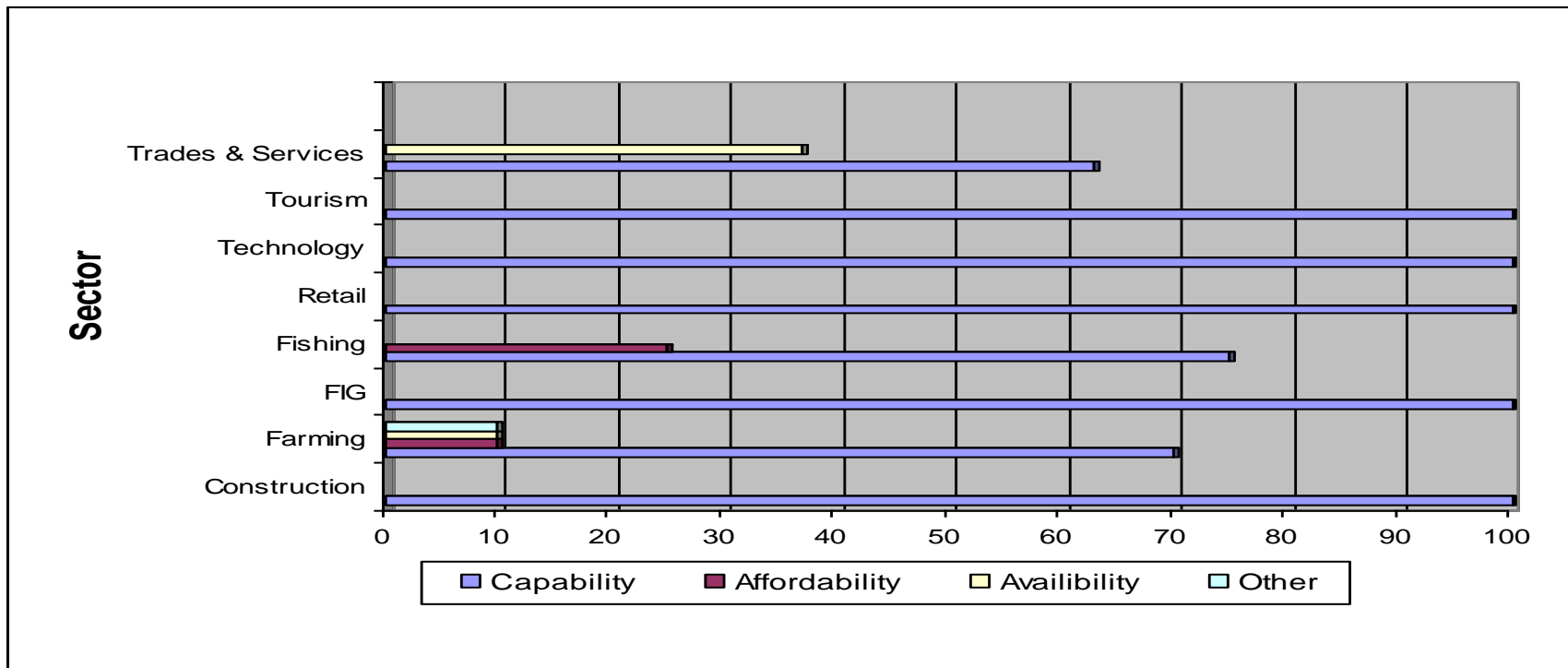
In comparison to when this question was asked 2 years ago, there has been an increase in the amount of responding businesses employing full time workers, as oppose to part-time or seasonal, this is most notable in the Tourism and Construction Sectors, where seasonal work has not been reported. Farming still remains one of the largest employers of contractors, which is an understandable influence of the Farm Improvement Program and Shearing. Notable FIG appears to have an increased percentage of contractors, in part this is explained by one of this surveys departmental responders not having returned a Questionnaire in 2009.

Demographics of Employees per Sector



Similar to the 2009 survey, Status Holders still remain the largest group employed per Sector; however the margins have narrowed across all sectors compared to 2009. FIG now employs equal amounts of PRP, Status Holders and Contractors. While the Retail Sector has increased the amount of Status Holders they employ in comparison PRP holders, who were the major demographic employment source in 2009, they have also increase the level of employment available for students on work experience. Notable for the first time Tourism has utilised students on work experience.

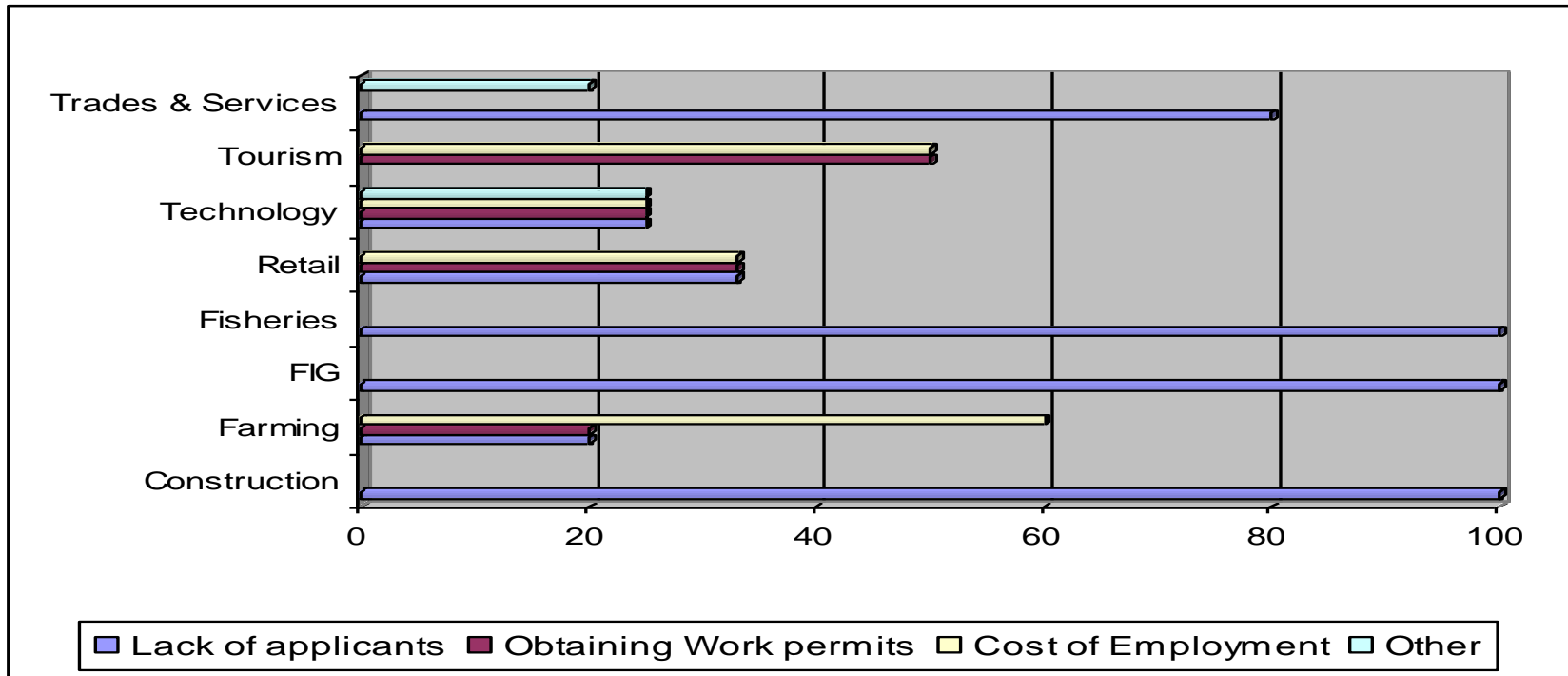
What Sectors Looked for in Potential Employees



Notable all sectors chose 'capability' as the most desirable attribute to employment, with only Farming and Fishing Sectors considering 'affordability'. Farming and Trades & Service Sectors were also governed by 'availability', with the Farming Sector requiring additional tenets such as commitment and honesty.

The biggest change in the last two years was in the Construction Sector who previously rated 'affordability' as a key requirement, however this could be attributed to the alteration of possible selections, which introduced 'capability' as an option in place of 'Level of Skills' for the first time.

Difficulties in Employing Required Skills



When asked what problems Businesses faced in employing the required skills the results were quite revealing, when compared to the Demographics of Employees per Sector.

Nearly all sectors experienced problems with a lack of applicants, which could in part be due to the lack of an available workforce, but as noted by one business might in part be due to work permit renewal applications, clouding people’s perceptions on what is a genuine vacancy.

Those that employ PRP and Status Holders such as the Construction Industry had no difficulties obtaining work permits as it was a mute point, but lacked applicants, similarly Trades and Services whose seasonal and contract employment was below 10%, however the biggest employers of contract workers outside of FIG; Farming and Technology all experienced problems.

Obstacle	2011 %	2011 Rank	2009 Rank	Divergence
International Politics	30	1	15	+ 14
Energy/Power Costs	24	2	3	+ 1
Number of Customers	21	=3	7	+ 4
Inward/Outward Freight Costs	21	=3	1	- 2
Red Tape	18	5	6	+ 1
Air Links	18	6	10	+ 4
Distance to Markets	18	7	= 2	- 5
Lack of Labour	15	8	11	+ 3
Cost of Labour	15	9	8	- 1
Freight Frequency	15	10	9	- 1
Office Availability	15	11	=30	+19
Access To Land	12	=12	=19	+ 7
Book keeping	12	=12	39	+27
Industry Co-ordinator (tourism)	12	14	24	+10
Communications Network	9	15	4	- 11
Taxation	9	16	18	+ 2
Road Network	9	=17	16	- 1
Internal Transport	9	=17	12	- 5
Obtaining Finance	9	19	14	- 5
Legal Services	9	=20	=32	+12
Deep Water Port	9	=20	17	- 3
Warehouse Availability	9	=22	=26	+ 4
Cold Store Availability	9	=22	=26	+ 4
Business Exit Options	9	24	=32	+ 8
Too Little Competition	9	=25	=36	+11
Valuation Service	9	=25	=36	+11
FIG	6	27	= 5	-22
Insurance	6	28	=26	-2
Immigration	6	=29	=19	-9
Exchange Rate	6	=29	=22	-7
Training	6	=31	=32	+1
Expertise	6	=31	=26	- 5
Professional Advisors	6	=31	=32	- 1
Internet/computing expertise	6	=31	=30	- 1
Too Much Competition	6	=31	=24	+7
Infrastructure	3	=36	=13	- 23
Fishing JV Partners	3	=36	=36	-
Economic & Regulatory Policy	1	=38	=22	-16
Lack of Market Information	1	=38	=19	-19