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MINISTER OF STATE'S MEETING TO DISCUSS FALKLANDS FINANCIAL MATTERS:
TUESDAY 18 SEPTEMBER: 10 AM

Present

Mr Nicholas Ridley MP
Mr Temple, PS/Mr Ridley
Mr Cowling, SAmD

Mr Harold Rowlands,
Falkland Islands Financial
Secretary

Mr Harry Ritchie,
Fiscal Adviser, Falkland
Islands Government

SUMMARY RECORD

1. In welcoming Mr Rowlands, Mr Ridley said following his return from the Islands he had been working hard on some of the financial matters discussed during his visit. There were as yet no results but officials had been instructed to pursue certain points. On the political front, he expected the Cabinet to agree to negotiations proceeding. The first round was likely to take place in November. On the economic side, he was specially eager to see progress on banking and credit matters. He had not had time during his visit to go fully into the tax regime but this was also something in which he was interested.

2. Mr Rowlands confirmed that at present personal income tax was higher than in the UK. After the last British budget he had decided to take a fresh look at their personal tax structure. They aimed to reduce it even though it would result in a loss of revenue. There were the normal range of taxes on liquor/tobacco but no VAT. Corporation tax was at 45%. They were now proposing to introduce withholding tax on dividends paid to non-residents.

3. Mr Rowlands said he would be seeing the ODA on certain matters and also seeking advice from the Bank of England. He was also concerned about difficulties which had arisen over Green Patch. The Falkland Islands Company had raised a number of questions which were

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currently frustrating completion of the sale. The Governor had written to Mr Needham, Managing Director of Coalite, seeking his intervention. The Company wanted to retain the right to purchase back the land in question after 21 years. This was unacceptable to FIG. There had been 26 offers for the six farms on Green Patch. Mr Rowlands said he would be seeing the Falkland Islands Company about the Green Patch problem. He would let Mr Ridley know if he encountered any real problems. Mr Ridley said that Mr Rowlands should mention to the company's Managing Director that HMG was keen for the sale to go through quickly. His own close and personal interest should be emphasised. Speaking in absolute confidence, Mr Ridley remarked that he had doubts about the Falkland Island Company's role. Perhaps we should all begin to think more radically about changing it. Mr Rowlands said that the company had shown a sense of responsibility over a long period. Sheep farming had brought good living in the Islands. But he agreed that the company now had little interest in progress. He personally felt the company were against development of the Islands. In Mr Ridley's view, their monopolistic position was unhealthy. To break up the monopoly would attract more people to the Islands to farm. Mr Rowlands agreed that there should be more farming as opposed to ranching. If Green Patch proved a success then perhaps more pressure could be applied on the Company. Mr Ridley felt that it would take some time for the results of Green Patch to become evident. He personally would like to move rather faster. Perhaps HMG might be able to buy the company or more likely encourage a commercial bank to do so. Assets could be distributed; land sold off - with some trading activities and infrastructure becoming the responsibility of the FIG. However it was done, no money should be lost on the transaction. Mr Rowlands thought that any take-over should be done gradually. Some people might react adversely. Some would not favour the idea of "Government farms". Mr Ridley emphasised that the intention would be to sell the land to private

/farmers

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farmers. But we had not made up our minds. It could not happen quickly. It had been useful to exchange views.

4. Mr Rowlands said progress on the road to Darwin was very slow. Only 5 miles had been built. When the road programme had been completed in 2/3 years time the land on either side would be more accessible. Perhaps some of this would be suitable for sub-division. The arrival of the Islander aircraft was eagerly awaited. The landing strips that had been prepared would be of better standard than anticipated.

5. Mr Rowlands referred to the leak from Councillors which occurred during the Minister's visit. Mr Ridley said he had since seen the Falkland Islands Committee and believed he had set their minds at rest. He intended to see the Parliamentary Party to try to encourage them to take a positive attitude to negotiations. As Councillors knew, someone from the Islands could be present at the next round of talks. We would also keep Councillors fully in the picture, as previously, via the Governor. Mr Ridley stressed the vital importance of secrecy.

6. Mr Rowlands said he would be discussing commercial banking with the Bank of England. He was also to see Warburgs. Mr Ridley said that he had already discussed this with officials. We were now considering what banks might be suitable. We could not approach those involved in Argentina. What was needed was a bank willing to provide retail services. He personally felt a case could be made for a commercial banking operation being subsidised from ODA funds at least initially.

7. Mr Rowlands mentioned that the Argentine Banco de la Nacion had shown an interest in opening up an agency office in Port Stanley.

/Councillors

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Councillors were opposed. Mr Ridley felt the best counter to this would be to set up a British bank. Mr Rowlands agreed it would help the Islanders gain access to credit. He then referred to the recent ODA report on inshore fishing which recommended a survey of Falklands waters. The ODA had said that they could not provide the money. The Governor had asked Mr Rowlands to consider whether a line of credit could be obtained to cover this. Mr Ridley said he would be interested to see this report.

South America Department

September 1979

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FALKLANDS: BANKING MATTERS

1. As suggested by Mr Ridley, I accompanied Mr Rowlands (FIG's Financial Secretary) and Mr Ritchie (FIG's Fiscal Adviser) on their call on Tuesday, 18 September, on the Bank of England's Dependent Territories expert, Mr Mayes.

2. As instructed, I emphasised the importance the Minister attaches both to obtaining access to credit facilities for the Islanders; and to a commercial banking presence in Port Stanley.

3. The following points arose:

a) Commercial Banking

Given the Islands' tiny population, Mr Mayes saw difficulties in attracting a commercial banking operation (in the UK, 7,000 accounts are normally taken as the viable minimum). He advised against approaching minor banks (things have gone badly wrong in other dependent territories). FIG should go for someone with a good name. Perhaps the answer was to consider expanding the role of the Savings Bank. A commercial operation could be grafted on. In 1977, Barclays Bank International said they would be willing to provide management expertise against reimbursement. With Mr Rowlands' agreement, he intends without commitment, to take soundings and let us know the outcome.

b) Access to Credit

Mr Rowlands described the immediate requirement for access to perhaps £100,000 annually. This would enable FIG to extend modest loans to farmers wishing to develop their land (e.g. for fencing materials for which there is a current demand). Mr Mayes felt that the presence of a commercial bank would not necessarily solve the problem. Credit would not be made available simply because the bank was there. But a local bank could mobilise local funds more efficiently than at present. FIG would not be able to attract capital sums (without a British Government guarantee) unless they proposed financing commercial projects of evident profitability (housing development schemes, for example, would not qualify). Mr Rowlands is to talk to Warburgs; and will now also consider an approach to the Commonwealth Development Corporation.

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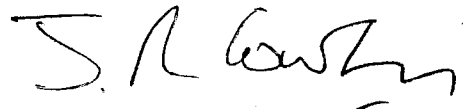
c) Links with Sterling

Mr Mayes confirmed that FIG are free to break with Sterling should they wish to do so. But 85% of Island imports originate in the UK. We take all of their exports (mainly wool). Given this, he saw no practical alternative but to stay with Sterling. Mr Rowlands said he could see the logic of this but would take further soundings.

d) Offshore Banking Facilities

Mr Mayes was not opposed. Managing funds creates wealth. Licence and legal fees, stamp duties on documents would all do this. But there were problems. The Islands were remote; relatively difficult to get to; communications were not particularly good. There were pitfalls over control; careful administration would be essential. There was also much competition from countries that were better placed geographically. Mr Rowlands is giving this further thought.

4. Mr Rowlands raised the possibility of a visit to the Islands by a Bank of England expert. Mr Mayes believes that much could be done to help give the Savings Bank an enhanced role without a visit. But the Bank would be ready to consider one if formally requested. I suggest we take this up with Mr Rowlands when we have our round-up discussion before his return to the Islands.



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19 September 1979

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