

STATE OF THE FALKLAND ISLANDS ECONOMY 2020

April 2021

Directorate of Policy and Economic Development
Falkland Islands Government



Author Davide Ranghetti
 Chief Economist and Economic Policy Advisor
 dranghetti@sec.gov.fk

Directorate of Policy and Economic Development
Falkland Islands Government

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List of acronyms

| | |
|-------|---|
| CAGR | Compound average growth rate |
| DPED | FIG Directorate of Policy and Economic Development |
| EU | European Union |
| EU27 | The EU consisting of 27 Member States (from 1 February 2020, after the UK left the EU) |
| EU28 | The EU consisting of 28 Member States (from 1 July 2013 to 31 January 2020) |
| EUR | Euro |
| FAQ | Frequently asked question |
| FIDC | Falkland Islands Development Corporation (national economic development agency for the Falkland Islands) |
| FIG | Falkland Islands Government |
| FIMCo | Falkland Islands Meat Corporation |
| FRED | Federal Reserve Economic Data (database maintained by the Research division of the Federal Reserve Bank of St. Louis, Missouri) |
| GBP | British pound sterling |
| GDP | Gross domestic product |
| GNI | Gross national income |
| GVA | Gross value added |
| ILO | International Labour Organisation |
| IMF | International Monetary Fund |
| ISIC | International Standard Industrial Classification of All Economic Activities (United Nations industry classification system) |
| IT | Information technology |
| ITQ | Individual transfer quota (quota imposed on individuals or firms by a governing body to limit the production of a good or service) |
| KEMH | King Edward VII Memorial Hospital (hospital in Stanley) |
| MFN | Most favoured nation (principle of non discrimination in international trade) |
| MPC | Mount Pleasant Complex (Royal Air Force station in the Falkland Islands) |
| OAD | Overseas Association Decision (Council Decision 2013/755/EU of 25 November 2013 on the association of the overseas countries and territories with the European Union) |
| OECD | Organisation for Economic Co-operation and Development |
| PIIE | Peterson Institute for International Economics |
| PPP | Purchasing power parity |
| PRP | Permanent residence permit |
| RPI | Retail price index |
| TRIP | Tourism Recovery Incentive Programme (FIG support scheme) |
| UK | United Kingdom of Great Britain and Northern Ireland |
| UNWTO | World Tourism Organization |
| US | United States of America |
| USD | United States dollar |
| VFR | Visiting friends and relatives (inbound tourism segment) |
| WEO | World Economic Outlook (half-yearly publication published by IMF) |
| WTO | World Trade Organization |

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Summary

This report is intended to provide Falkland Islands' policymakers, members of the business community, and the general public – as well as any reader abroad – with an overview of the Falkland Islands economy up to the end of 2020.

This report is structured in a similar way to its previous versions¹. However, compared to previous versions, a number of Sections – particularly Section 1.1 on population trends, Section 2.1 on gross domestic product (GDP), Section 2.3 on retail prices, Section 3.1 on the balance of trade, and Section 3.3 on the fishing sector – have been significantly expanded.

The main body of the report has also been integrated with boxes that answer frequently asked questions (FAQs), deepen some themes, add further analysis or insight, and provide an international benchmark by comparing the Falkland Islands with other countries.

Finally, one new Chapter and one new Section have been added: Section 2.2 on income inequality, which reports data that was not previously available for the Falkland Islands, and Chapter 5 on the available evidence of the impact of the Covid-19 pandemic on the Falkland Islands economy.

Population trends and labour market

- **Mainly because of a positive migratory balance, the Falkland Islands has experienced positive demographic growth in recent years**, with population growing by 3.0% per year on average between 2012 and 2016. The Falkland Islands has a relatively young population compared to other developed economies, as evidenced by indicators such as the dependency ratio (46% in 2016).
- **Population growth over the next 15 years is likely to be modest**, with an average growth rate of approximately 2% per year to meet anticipated workforce requirements, driven by predictable organic growth in a viable economy, as well as anticipated stimulus from investments in the oil sector and government infrastructure.
- **In 2016, the unemployment rate in the Falkland Islands was just 1.0%**. While this is clearly something to be celebrated, the very tight labour market conditions can pose various problems for businesses.
- The high economic activity rate – evidenced by a labour force participation rate of 89% – suggests that **there is little scope for increasing labour supply by drawing additional residents into the labour force, and that any net new jobs will require immigration**.

Gross domestic product

- Although *real* GDP is generally regarded as a better measure of an economy's change over time, for economies such as the Falkland Islands, which trade on a large scale with the rest of the world, the prices for export goods are clearly important for economic well-being – therefore, it makes sense to look at the evolution of *nominal* GDP over time. **Between 2007 and 2018, nominal GDP has grown at a compound annual growth rate of +8.3% per year, from £106.0m to £254.7m.**
- Annual GDP is highly volatile and double digit year on year swings are common, mainly due to the importance to the economy of sectors characterised by volatile output value (such as the fishing and hydrocarbons industries). In particular, the share of GDP generated within the

¹ 'State of the Falkland Islands Economy 2017', published in September 2017, and 'State of the Falkland Islands Economy 2018', published in February 2019.

fishing sector has significantly grown in recent years (from 35% in 2011 to a max of 64% in 2018). Excluding these industries and estimating the net contribution to GDP of the other sectors of the economy (i.e. isolating the so-called 'non-resource GDP') is a useful exercise to monitor the health and sustainability of national economic growth. **Non-resource GDP has experienced a steady growth in real terms over the last decade and has been growing at a compounded average growth rate of +3.0% per year between 2009 and 2018.**

- Between 2007 and 2018, the labour income share (or 'labour share of GDP') has decreased by 20 percentage points (from 59% to 39%) because of the relatively much faster growth in aggregate operating surplus, mostly driven by growing profitability levels in the fishing industry. **When looking at non-resource sectors only, the labour income share appears to have fluctuated around an average of 60% between 2014 and 2018** – a level similar to that seen in Europe, the UK, and the US.
- Gross domestic product per capita was £81.8k in 2018, up from £72.3k in 2017 (+13.5%). **In 2018, the Falkland Islands could be ranked fifth in the world by GDP per capita.** GDP per capita is so high in the Falkland Islands mostly because of the relatively high number of non-resident workers – including, for example, some 1,500 fishermen on board vessels – compared to the total number of workers contributing to the generation of GDP.
- Gross national income (GNI) per capita – derived by adjusting GDP per capita for net foreign income – is deemed to be a better indicator of the economic welfare of Falkland Islands residents than GDP per capita. **GNI per capita for 2018 was £54.8k, up from £49.4k in 2017 (+10.9%).** GNI is still not equivalent to the average income received by Falkland Islands residents, as it also includes income streams such as companies' retained earnings, as well as licence fees and foreign investment income accruing to FIG.

Income inequality

- A large gap between those at the lower end and those at the upper end of the income scale can pose moral, social, economic and political challenges. How large is this gap in the Falkland Islands, and is it growing or decreasing? To answer these questions, **average income statistics (e.g. GDP per capita and GNI per capita) need to be supplemented with income inequality measures.**
- Income inequality measures only refer to disparities in the distribution of personal income within a society. This differs from other inequality measures such as social inequality, which refers more generally to disparities in access to resources and rights, and is more prevalent in societies where access is dependent on wealth, ethnicity or religion, or stems from differential legislation. Therefore, **it is not possible to draw conclusions on social inequality based only on income inequality measures.** For the same reason, comparison with countries that have limited pre-distribution mechanisms – such as universal health, public education, social housing, and other institutions that are important for reducing inequality, as well as taxes and transfers – is a challenging task. As per capita public spending in sectors such as health and education is generally higher in the Falkland Islands than in other high-income countries, social inequality is likely to be lower here than in countries with comparable levels of income inequality.
- On average, between 2005 and 2019, the bottom 20% of Falkland Islands income earners earned 7% of total (after-tax) personal income; the bottom 50% earned 26%; the top 10% earned 30%; and the top 1% earned 10% of total income. **The Falkland Islands is among the high-income countries with the highest share of total income earned by the top 10%.**
- The Gini coefficient is a measure of statistical dispersion intended to represent the income inequality within a society; it goes from zero to one, with zero meaning perfect income

equality and one meaning maximum income inequality. Between 2005 and 2019, the Falkland Islands after-tax Gini coefficient has fluctuated between 0.34 and 0.39, meaning **it is at the high (i.e. more unequal) end of a sample of other high-income countries, very close to the UK and the US.**

- The *after-tax* Gini coefficient takes into account the redistribution effects due to taxation and social benefits – this measure can be compared with the *pre-tax* Gini coefficient, which looks at income inequality before taxes and social benefits. **In the Falkland Islands, very small redistribution effects by taxes and transfers mean that the after-tax Gini coefficient is high from an international perspective, even though the pre-tax Gini coefficient is not.** One reason for this is the personal income tax regime in the Falkland Islands, as evidenced by the relatively low (from an international perspective) top marginal income tax rate.
- **In the past, the Gini coefficient increased within most high-income economies, sometimes very significantly.** In the Falkland Islands, the three-year average after-tax Gini coefficient increased from 0.34 to 0.37 between the mid and late 2000s; it then dropped to 0.35 during the first half of the 2010s and rose again to 0.37 by the end of the decade. This demonstrates that the level of income inequality in the Falkland Islands has experienced a moderate upward trend in the last 15 years with some fluctuations in either direction.
- The varying size of dividend income distributed to resident shareholders is one of the clearest drivers of income inequality – with larger dividends correlated with higher inequality. Between 2005 and 2019, this grew at a relatively faster pace than income from other sources. **When adjusted for inflation and population growth, dividend income grew by 246% in a decade (2016-18 to 2006-08);** while income from wages and salaries decreased by 3%; pension income decreased by 4%; self-employed and partnership income increased by 29%; and income from property and investment increased by 56%.
- **Available data reinforces anecdotal evidence on the importance of cruise tourism income for a large portion of the population at the lower end of the income scale.** Greater numbers of cruise tourists seem to correlate with a reduction in income inequality, due to the contribution that cruise tourism income appears to have in shifting the average pre-tax income of the bottom 50% of income earners.
- Another driving factor that has likely had an impact in terms of helping reduce income inequality was the introduction, in 2013, of a statutory minimum wage. **The minimum wage was raised from £5.05 per working hour in 2013 (70% of the estimated living wage) to £7.13 in 2021 (100% of the living wage).**

Retail prices

- **The Stanley Retail Price Index (RPI) fell 1.4% in 2020, mainly due to very low fuel prices internationally.** Additionally, a number of other items – including electricity, service charge, landline phone calls and broadband internet – had a deflationary impact on the index. When these items are excluded from the RPI basket of goods, the average annual change is +0.6%. This is almost entirely due to rising prices in food and beverages and restaurant services.
- **In the last decade, retail prices in Stanley tended to be more volatile than in the UK.** Inflation has moderated in recent years meaning that, at the end of 2020, retail prices were on average 25% higher in the Falkland Islands than in early 2010, compared to 34% higher in the UK.

Government

- Government revenues and expenditure have increased over the last decade (respectively by 4% and 7% per year in nominal terms). **Government revenues have consistently exceeded**

government expenditure, generating significant surpluses (9% of GDP on average between 2011 and 2018).

- **Fishing licence fees and corporation tax are generally the two major sources of revenues** – accounting, on average over the last decade, for 27% and 21% of total revenues respectively. Personal tax and investment income also contribute significantly to government revenues (respectively, 13% and 12% on average).
- **Public spending per capita in the Falkland Islands is significantly higher than in the UK or OECD countries**; moreover, it has been in an uptrend, increasing by 2.3% per year between 2010/11 and 2018/19 (in real terms i.e. net of inflation).

Trade

- **The Falkland Islands is a very open-to-trade territory.** Trade (i.e. the sum of exports and imports) was 111% of GDP on average between 2016 and 2018 – higher than the world average (59%) although in line with the average of other small states (108%).
- In the last decade, goods exported by the Falkland Islands grew steadily (by 8% per year on average) – leading to record trade surpluses in recent years (44% of GDP on average between 2016 and 2018). **Running a positive trade balance is important because it is the necessary condition for both FIG and the private sector (businesses and households) to run a surplus (i.e. an increase in savings) at the same time.**
- **The Falkland Islands main exports are fishery products, wool, and meat.** Fishery products are by far the largest exported good, on average accounting for 91% of all exports between 2010 and 2019.
- The UK ceased to be a member of the European Union (EU) on 31 January 2020. The EU-UK Trade and Cooperation Agreement of December 2020 made no provision for the Falkland Islands and no other agreement was concluded regarding a post-Brexit trading relationship with the EU – meaning that **goods imported into the EU from the Falkland Islands are now subject to the EU's Common External Tariff** (between 6% and 18% for fishery products and ca. 42% for meat products). If these costs are not offset by factors pushing in the opposite direction (such as higher export prices), this is likely to exert downward pressure on the profitability of exporting companies as well as government revenues.

Agriculture

- **Agriculture is the second largest employment sector in the Falklands**, accounting for 10% of employment in 2016.
- **Wool remains the most important agricultural product for the Falkland Islands.** Government and industry have made significant efforts to reduce the micron of Falkland Islands wool in order to obtain a better price in world markets. Over the last ten years, the export value of wool has increased by 73%, in line with the increase in the average price of wool imported into the EU over the same period.
- **Large scale exports of lamb and mutton began after the establishment of the Falkland Islands Meat Company (FIMCo) in 2003.** Over the last ten years, the value of Falkland Islands meat exports has increased by 84%, mostly driven by an increase in quantities exported.

Fishing

- With the exception of the illex squid fishery, **fishing in Falklands waters is controlled by a system of Individual Transferrable Quotas (ITQs)**, and carried out by Falkland Islands resident companies acting either alone or in joint ventures with foreign (mainly Spanish) partners.

- **Value of fishing exports depends on a number of volatile variables**, including fish catches, international fish prices, and exchange rates. Over the last decade, volatility in catches, export prices, and exchange rates have been responsible, respectively, for 53%, 34% and 11% of total volatility in export value.
- **In recent years, the fishing industry has driven the growth of other sectors of the economy** – thanks to its important local economic spin off activities such as transport and storage, and administrative and support services, as well as the investments made in past years in subsidiary companies in sectors including retail and real estate.
- Fishing licence fees are typically the biggest single source of government revenues; in addition, Falkland Islands resident fishing companies are also significant contributors to corporation tax revenue. **The contribution of Falkland Islands fisheries resources to government revenues is a key enabler of high and rising levels of public spending per capita.**

Tourism

- **The Falkland Islands receives visits from cruise ship passengers as well as international land-based tourists.** The number of cruise passenger arrivals has grown from around 20k in the early 2000s to almost 73k in 2019/20 – the largest number to ever visit in a single season. The number of leisure tourists grew between 2000 and 2007, and again between 2010 and 2019, as the global economy recovered from the global financial crisis, reaching 1,943 in 2019.
- **Tourism is also an important sector in terms of employment.** In 2016, 89 people stated that their primary employment was in tourism, with a further 96 people saying that they had secondary employment in the industry.

Hydrocarbons

- Hydrocarbon exploration has been taking place in Falkland Islands waters for some time, with major drilling campaigns occurring in 2010-2012 and 2015-16. **The decision of oil companies on whether to sanction production will be driven by expectations of future oil price, attractiveness of the specific project, investment climate and other factors.**
- Exploration activity has provided a stimulus for the Falklands economy, as well as providing a contribution to government revenues. **The economic impact of oil production, should it be sanctioned, would be much larger** – though long-term impacts are expected to be modest in terms of overall population growth.

Business environment and competition

- According to FIDC's last Business Climate Survey (2018), **the most significant barriers to business growth relate to transport and communications** – e.g. air links to South America and telecommunications (speed and quality of broadband internet). Labour shortages (both skilled and unskilled) have also been a problem for many years and are ongoing. Some other barriers, such as the small local market and the distance to other markets, are consequences of being a small, isolated, community, which cannot easily be overcome, although steps may be taken to mitigate their impact on the economy.
- A new weekly commercial air link connecting the Falkland Islands with São Paulo in Brazil was established in November 2019 – though currently suspended due to the impact of Covid-19. **Strengthening international air links is expected to bring a number of benefits to the Falkland Islands economy, as well as improving social wellbeing and quality of life.**
- Many goods and services in the Falkland Islands are supplied by either a single supplier (monopoly) or a small number of suppliers (oligopoly). Monopoly and oligopoly suppliers are

able to take advantage of their position by setting prices significantly higher than would be determined in a more competitive environment. **This results in upward pressure on the cost of living and in the good or service being consumed at less than the socially efficient level.**

- **The available data seem to confirm that this phenomenon occurs in the Falkland Islands:** sectors where a higher number of suppliers allows for greater competition are characterised by much lower mark-ups – broadly in line with the EU average – than sectors where monopoly or oligopoly conditions prevail and mark-up levels are much higher than the EU average.

Economic impact of Covid-19

- The latest issue (April 2021) of the World Economic Outlook published by the International Monetary Fund describes **an improved world economic outlook compared to previous releases**. However, a high degree of uncertainty surrounds the projections, with many possible downside and upside risks. Much will depend on which turn the global “race between the virus and vaccines” takes in the coming months.
- **The Falkland Islands economy experienced the negative impact of the Covid-19 pandemic mostly as a result of strong links with the global economy through established trade flows.** The pandemic hit the Falkland Islands economy through a series of external shocks impacting, in turn, international air connectivity; the wool export market; the fishing sector’s logistics and operations; and international tourism flows.
- A ‘K-shaped recovery’ is where different parts of society (e.g. different economic sectors) experience different recovery paths; some suffer limited losses and a rapid recovery, while others see a deeper recession and a slower recovery. **The Covid-19 downturn appears to be K-shaped in the Falkland Islands as different sectors of the economy have been affected to varying degrees by the crisis.**
 - The performance of a number of sectors – including most domestic-market-oriented sectors, such as information and communication, financial services, professional and administrative services – has been broadly in line with recent years’ trends. Other sectors – e.g. construction, retail sale, and support service activities – have experienced, to varying degrees, a reduction in the rate of activity in Spring 2020, but have already recovered or are likely to fully recover relatively quickly.
 - Disruptions to international supply chains, logistics, and air connectivity have posed serious challenges to those sectors that are most exposed to shocks in world markets and most dependent on foreign labour – such as agriculture and fishing. Businesses in these sectors have managed to address these challenges by adapting their operating models to changing conditions. There is significant uncertainty around when disruptions in international logistics and connectivity can be resolved.
 - Given the current state of international connectivity and tourist flows worldwide, it can be expected that it will take longer for tourism – the sector most affected by the crisis – to return to pre-crisis levels of activity.
- **Different companies or businesses within the same sector have likely been affected by the impact of the crisis to different degrees.** The wide range of measures put in place by FIG to support the private sector during the downturn were designed to help reduce disparities and effectively shield those companies most affected by the Covid-19 crisis. Work will continue throughout 2021 to determine the effectiveness of these interventions.

1. Population and labour market

1.1. Population trends

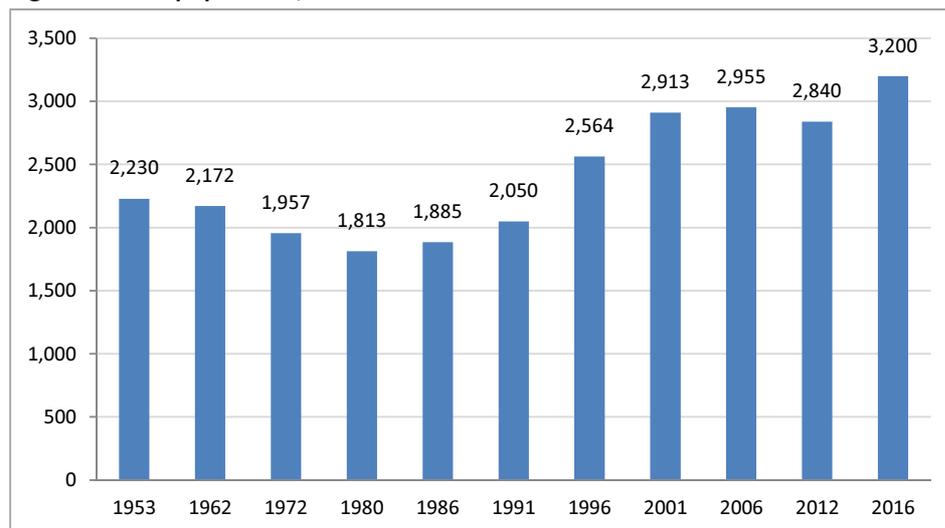
1.1.1. Growth in population²

Following a period of stagnation between 2001 and 2012, the Falkland Islands population grew to 3,200 in 2016 (2,841 excluding MPC) from 2,840 (2,471) in 2012; an increase of 360 people, equating to an annual growth rate of 3.0% over that period.³ The population increase was mainly driven by net migration (319 people), with a natural increase (births minus deaths) of 41 people.

Over this period, the number of people with Falkland Islands Status increased by 44, and the number of people holding a Permanent Residence Permit (PRP) increased by 81. This change is made up of natural increase in population as well as work permit holders applying for PRP (and PRP holders applying for Status).

At least some of the increase in population is driven by discrete projects (for example, demining) and is therefore likely to be temporary.

Figure 1: Total population, 1953-2016



Source: Falkland Islands Census 2016 (report available [at this link](#))

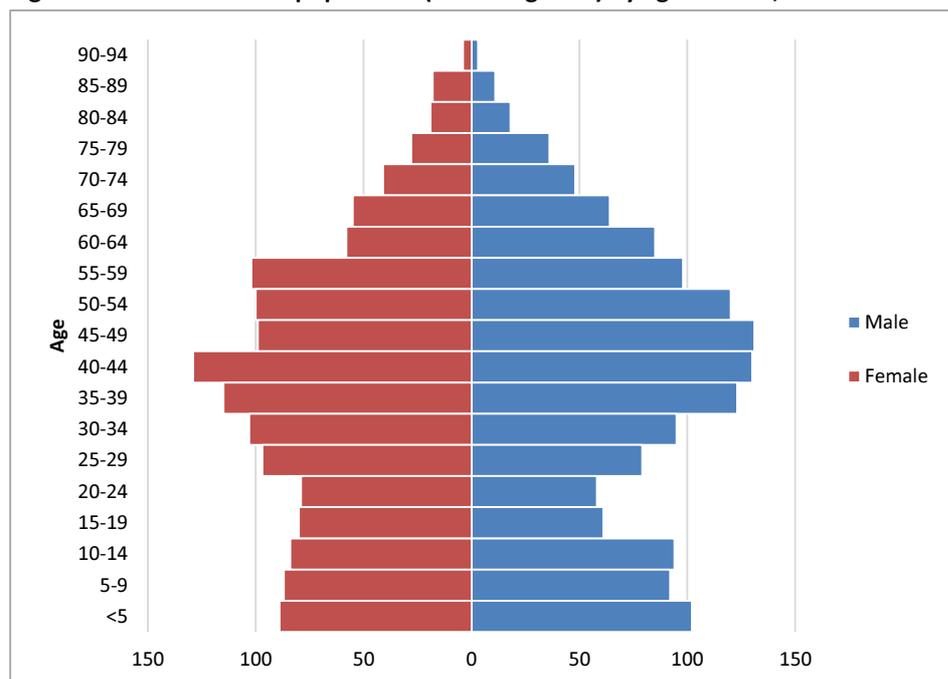
1.1.2. Population age structure

Figure 2 gives a breakdown of the Falkland Islands population by age and sex.

² Note: The population at MPC is excluded from all the following data and analysis on demographics.

³ These figures are for the usually resident population who were present on the night of the census. Serving British military personnel are excluded.

Figure 2: Falkland Islands population (excluding MPC) by age and sex, 2016



Source: Falkland Islands Census 2016 (report available [at this link](#))

The Falkland Islands has a relatively young population when compared to other developed economies. 12.2% of the population is aged 65 or over, compared to 17.8% in the UK, 14.8% in the US, and 26.3% in Japan. Excluding visitor and work permit holders and their dependants, 14.8% of the population is aged 65 or older. This age structure is beneficial to public finances and to the economy as a whole, as there is a large working age population which pays taxes while consuming, on average, fewer health and social care services than people outside working-age.

The dependency ratio is a statistic that compares the working age population (those aged 15-64) to the remainder of the population.⁴ The dependency ratio for the Falkland Islands is 46%, meaning that each non-working-age person is supported by just over two working age people. Excluding visitor and work permit holders and their dependants, the dependency ratio is 56%. The global average dependency ratio was 54% in 2018 (World Bank data).

1.1.3. Population growth projections

In October 2019, the FIG Policy and Economic Development Directorate published a report on the ‘Socio-economic impacts of oil & gas development in the Falkland Islands’⁵. Due to the current size of the population, and the geographic isolation of the Falkland Islands, it has always been anticipated that a significant impact from oil and gas development would be due to pressures from an increasing population. In the report, the development of an oil and gas

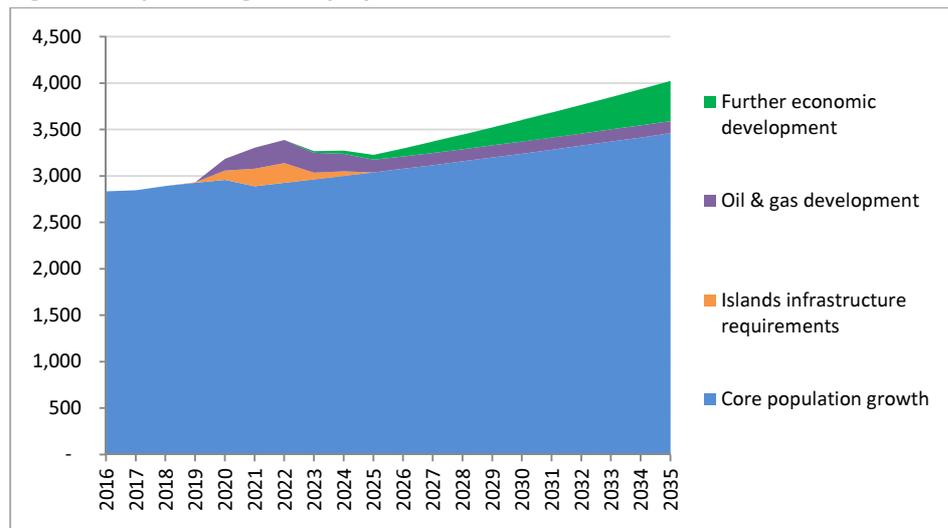
⁴ E.g. a dependency ratio of 50% means that each person of non-working age is supported by two people of working age, and a 100% ratio would mean that each non-working age person is dependent on just one working age person.

⁵ FIG Policy and Economic Development Directorate, “Socio-economic impacts of oil & gas development in the Falkland Islands. Employment and population growth. A wider perspective”, October 2019 (available at [this link](#)).

industry, and its expected socio-economic impacts, are analysed within the broader context of economic development and population growth projected for the Falkland Islands over the next 15 years (i.e. up to 2035).

In May 2020, Premier Oil announced its intention to suspend work on the Sea Lion Phase 1 development due to the exceptional impact of the Covid-19 pandemic on the global macroeconomic environment, including a significant decline in global oil prices. This has an impact on the projections shown in Figure 3, in that the temporary population surge in 2020-2025 is not likely to take place as projected. Despite this, the long term projections discussed in the report remain broadly valid.

Figure 3: Population growth projections



- ‘Core population growth’ refers to growth in population based on existing demographic trends (therefore assumes an increase in the number of Work Permit holders consistent with the trends observed in recent years).
- ‘Islands infrastructure requirements’ refers to growth in population driven by the government-funded capital programme that will be implemented in the following years.
- ‘Further economic development’ is development (which is assumed to drive a further increase in population) generated by the new infrastructure endowment through a number of mechanisms, including: increased connections to export markets; investment stimulation; productivity gains; and by laying the necessary foundation for the emergence of new economic ventures and economic sectors.

Source: FIG Policy and Economic Development Directorate, ‘Socio-economic impacts of oil & gas development in the Falkland Islands. Employment and population growth. A wider perspective’, Oct 2019 (report available [at this link](#))

Further than investment in the oil sector, the projections are driven by the organic growth that can be expected in a viable economy, as well as by the anticipated stimulus from government investments in economic infrastructure – including a new port, power station and air terminal, improvements in IT connectivity and housing development, etc.

Geographic remoteness and a harsh natural environment can be expected to act as a natural constraint against unsustainable population growth, supported by robust immigration laws that require a pre-existing employment offer in most cases.

The report found that overall population growth over the next 15 years will likely be modest, at an annualised growth rate of 1.9% per year to meet expected labour force requirements.

Social cohesion

The ‘Socio-economic impacts of oil & gas development in the Falkland Islands’ report includes a discussion of potential impacts of population growth on social cohesion.

Currently, about a quarter of the Falkland Islands population can be classified as temporary. If a greater percentage of temporary foreign workers do not stay and take up permanent residence and ultimately Falkland Islands status (the process of *conversion* from temporary to permanent population), this percentage is set to increase over the long run.

Certain workforce flexibility will always be desirable, and this will continue to be met through foreign, temporary labour. However, long term social cohesion will largely depend on how successful the Falkland Islands is at converting temporary workers to permanent residents, as a high percentage of transient workers has been demonstrated to have negative effects on small communities, particularly in remote locations.

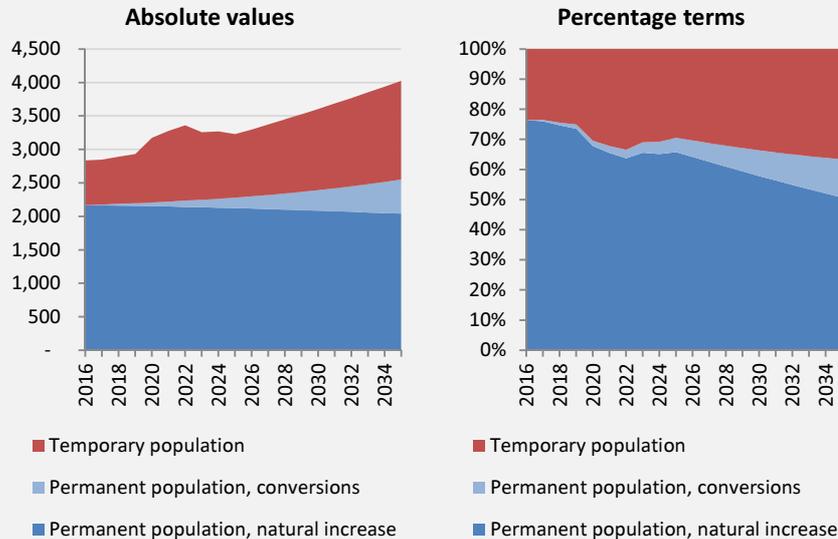
What level might the temporary population grow to in the coming years? See Box 1

What problems are posed on economic growth and social cohesion by a high share of temporary residents? See Box 2

Box 1. What level might the temporary population grow to in the coming years?

As of the 2016 Census, 24% of Falkland Islands residents were classified as temporary, primarily work permit holders and their dependents. By 2035, if population growth assumptions hold and the current conversion rates continue, ca. 37% of the resident population would be temporary.

Figure 4: Population projections, permanent vs. temporary population



Source: FIG Policy and Economic Development Directorate, ‘Socio-economic impacts of oil & gas development in the Falkland Islands. Employment and population growth. A wider perspective’, October 2019 (report available [at this link](#))

Box 2. What problems are posed on economic growth and social cohesion by a high share of temporary residents?

A consistently high temporary workforce can be associated with less community cohesion, and increased forecasting uncertainty for both government and private sector goods and services provision, and thus less local capture of the economic benefits of increased employment.

Temporary workers consume public services and spend in the local community, but transfer most of their wealth and knowledge with them when they leave the country. This means that the host jurisdiction does not get the full long term benefit from that worker's efforts.

A high percentage of temporary workers also puts strain on the community's ability and willingness to integrate newcomers. In addition, this degree of impermanency makes it difficult to plan for schools and social services and encourages segregation between groups within the community.

Migrants who settle permanently are also more likely to contribute and engage positively in their adopted community and to adapt to the dominant culture over time.

Conversion rates are associated with *churn rates*, which are the rates of rotation of overseas labour within the Falkland Islands, moving in for specified periods and subsequently moving out.⁶ With high churn rates, a higher number of individuals are needed to fill the required overseas job posts than what would be needed in case of lower churn rates.

The reasons for the high churn rates are varied and multifaceted; a common theme emerging from interviews conducted with workers who are leaving the Falkland Islands is a perception that the community could do more to welcome new members and there are significant barriers which impede full integration.⁷

1.2. Labour market

The unemployment rate in the Falkland Islands in 2016 was just 1.0%.

This is very low by international standards; for example, the UK's unemployment rate was 4.7% in October-December 2016 (i.e. at the time when the Falkland Islands Census 2016 was run) and 3.8% in October-December 2019 (last data available)⁸. While this is clearly something to be celebrated, the very tight labour market conditions can pose problems for businesses, which will be further discussed below (Section 4.1 on business environment).

Moreover, Census 2016 data show that one in five people who are working have two or more jobs; which again highlights the tight labour market in the

⁶ Churn rate (sometimes called attrition rate), in its broadest sense, is a measure of the number of individuals or items moving out of a collective group over a specific period.

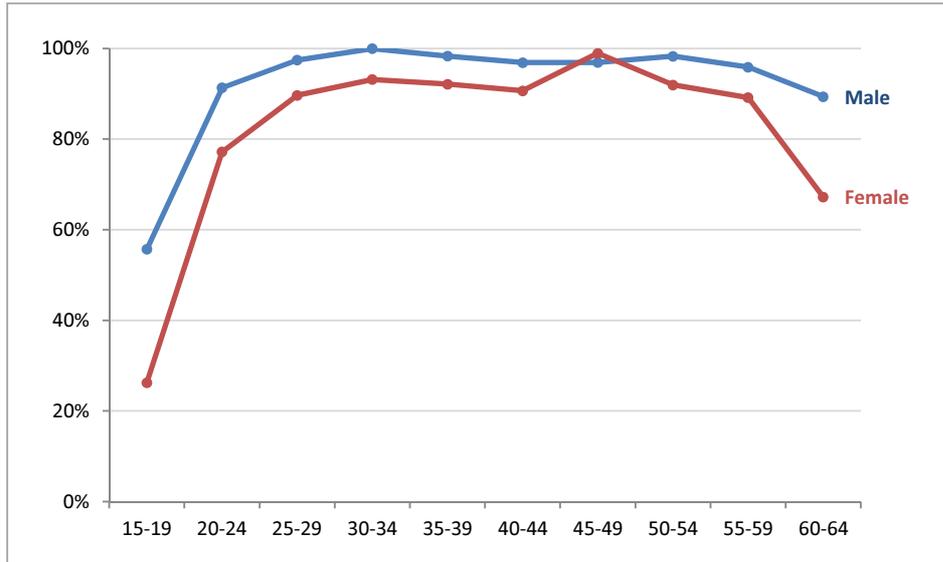
⁷ For more details, please see the report 'Labour Force Development in the Falkland Islands: Summary Report of the Labour Force Development Project', FIG Directorate of Policy and Economic Development (available at [this link](#)).

⁸ Labour market statistics time series dataset, Office for National Statistics.

Falkland Islands. As noted in the latest Census report, while the majority of roles people provided information on were likely to be part-time year-round jobs, approximately a quarter (ca. 90 in 2016) were seasonal roles within the tourism industry.

The number of people in employment in 2016 was 1,829, compared to 1,574 in 2012 (including people who are self-employed), reflecting a labour force participation rate (percentage of the working-age population who are in or seeking employment) of 89% (see Figure 5).

Figure 5: Labour force participation rate by sex and age group (excluding MPC), 2016



Source: Falkland Islands Census 2016 (report available [at this link](#))

Another statistics (which is considered to be a better indicator of economic slack in an economy than other indicators such as the output gap⁹), the prime-age (i.e. 25-64 years) employment-population ratio, was 94% in the Falkland Islands in 2016¹⁰ – compared to 83% in the UK, 79% in the European Union, 78% in the United States, 77% on average in OECD countries, and 69% in Italy in the same year.

The high economic activity rate suggests that there is little scope for increasing labour supply by drawing additional residents into the labour force, and that any net new jobs will require immigration. By comparison, UK labour force participation was 77.7% in 2016 (i.e. at the time of the last Falkland Islands Census) and 78.3% in 2018 (last year available).

⁹ The output gap is an economic measure of the difference between an economy's actual output and its potential output. Potential output is the maximum level of production an economy can sustain without generating inflationary pressures. Unlike actual output, the level of potential output and, hence, the output gap cannot be directly observed, but only estimated. Such estimates have many shortcomings that are difficult to circumvent.

¹⁰ 96% for males and 91% for females.

2. Falkland Islands macroeconomic overview

2.1. Gross domestic product

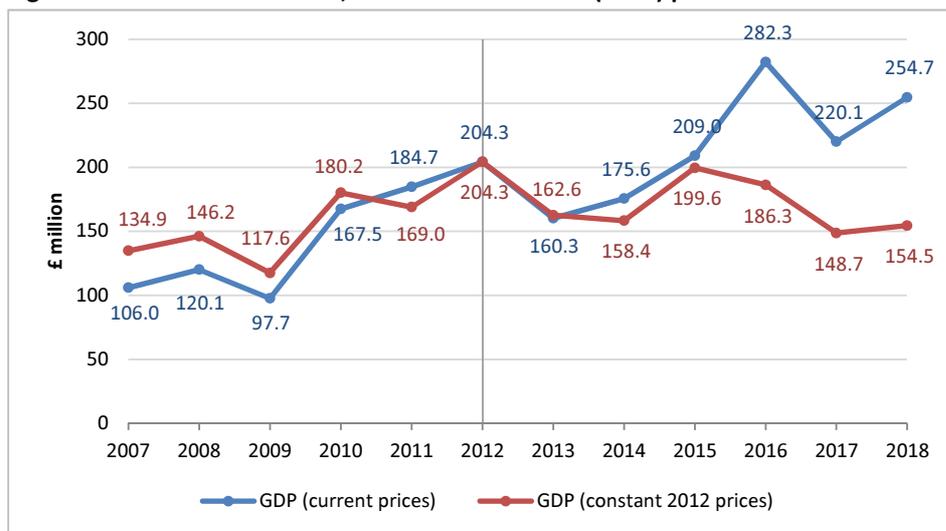
2.1.1. Growth in gross domestic product

In 2018, the Falkland Islands gross domestic product (GDP) in nominal terms was equal to £254.7m, up from £220.1m in 2017 (+15.7%). Real GDP increased by 3.9% in 2018.

Figure 6 shows how nominal and real Falkland Islands GDP have changed between 2007 and 2018. Over this period, real GDP has grown by 14.6% (from £134.9m to £154.5m), at a compound annual growth rate of +1.2%. Nominal GDP has performed better, having grown by 140% between 2007 and 2018, or +8.3% per year.

Annual GDP is highly volatile and double digit year on year swings are common. This is mainly due to the importance to the economy of sectors characterised by volatile output value (such as the fishing and hydrocarbons industries). The peaks in real GDP in 2010-12 and 2015-16 are due to major hydrocarbon exploration campaigns.

Figure 6: Falkland Islands GDP, current and constant (2012) prices



Source: Falkland Islands National Accounts (latest report available [at this link](#)); FIG DPED analysis

Is it better to look to the evolution of nominal or real GDP? See Box 3

How can the seemingly low growth rate of real GDP in the last decade (2007-2018) be explained? See Box 4

Why was there such a divergent trend in nominal and real GDP in 2016-2018? See Box 20 at p. 62

Box 3. Is it better to look to the evolution of nominal or real GDP?

Estimates of nominal GDP (also known as 'GDP at current prices') are compiled using prices prevailing in the year of measurement. Changes in nominal GDP are thus composed of changes in the volume of goods and services produced and changes in the prices of those goods and services.

Estimates of real GDP (also known as 'GDP at constant prices') separate the change in volume of economic activity from the change in prices. Therefore, real GDP only reflects changes in the volume of goods and services produced, rather than changes in prices too.

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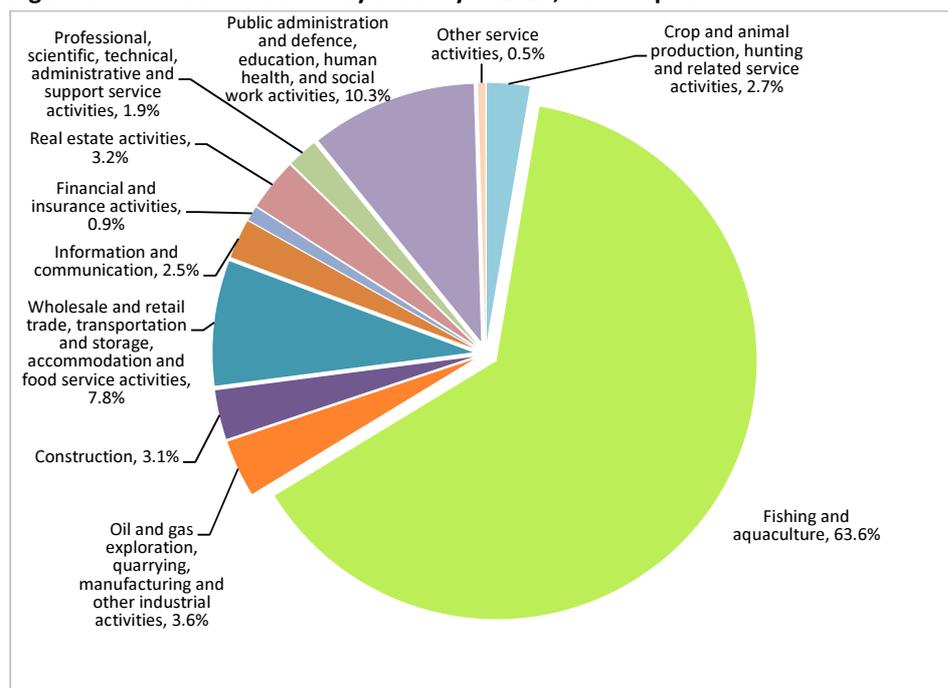
Real GDP is usually regarded as a better measure of change in an economy over time – especially in times of high and/or highly variable inflation. However, for economies like the Falkland Islands, that engage in large scale trade with the rest of the world, the prices received for export goods are clearly important for economic well-being.

Therefore, both measures are equally important and must be considered in a complementary manner: it is probably wiser to look at nominal GDP when assessing the contribution to economic well-being of our export-oriented sectors, while looking at real GDP when assessing the healthy growth of our non-resource sectors over time.

2.1.2. Gross domestic product by industry

Figure 7 shows the contribution made by different industries to Falkland Islands GDP in 2018. The single largest contributor to GDP in 2018 was the fishing industry (accounting for 63.6% of total GDP in current prices), followed by ‘Wholesale and retail trade, transportation and storage, accommodation and food service activities’ (7.8% of GDP), and public administration-related activities (10.3% of GDP).

Figure 7: Gross value added¹¹ by industry in 2018, current prices¹²



Source: Falkland Islands National Accounts (latest report available [at this link](#)); FIG DPED analysis

¹¹ Gross value added (GVA) is the value of an industry’s outputs less the value of intermediate inputs used in the production process. GVA broadly corresponds to the sum of wages and salaries, operating surplus and depreciation. GDP is the total sum of GVA from all economic sectors of a nation (plus taxes on products less subsidies on products).

¹² Figure 7 presents a static picture of the Falkland Islands economy at a given point in time and cannot be used to directly infer the consequences of changes to output by a given industry. E.g. were output from the fishing industry to fall significantly, this would be expected to reduce government revenues, and hence ability to spend on public services; it would also affect the businesses that provide support services to the fishing industry. Conversely, a decline in another industry might free-up labour that could be redeployed elsewhere, mitigating the overall negative effects.

Table 1 details changes in gross value added (GVA) in current prices, by economic activity, between 2017 and 2018. The great majority of total change in nominal GDP is due to a 24% increase in the fishing industry's GVA. Other sectors that have significantly contributed to growth include agriculture (+20%), construction (+19%), and 'Wholesale and retail trade, transportation and storage, accommodation and food service activities' (+17%).

→ International benchmarking box on 'GDP by industry – a comparison with the UK' at p. 23

Table 1: GVA by economic activity, £ million at current prices, 2017 and 2018

| Code | Industry | 2017 | 2018 | Change | % change |
|-------|---|-------|-------|--------|----------|
| 1-01 | Crop and animal production and related service activities | 5.6 | 6.8 | +1.1 | +19.9% |
| 1-03 | Fishing and aquaculture | 131.0 | 162.0 | +30.9 | +23.6% |
| 2 | Oil and gas exploration, quarrying, manufacturing and other industrial activities | 10.1 | 9.1 | -1.0 | -10.0% |
| 3 | Construction | 6.6 | 7.9 | +1.3 | +19.4% |
| 4 | Wholesale and retail trade, transportation and storage, accommodation and food service activities | 17.0 | 19.9 | +2.9 | +16.9% |
| 5 | Information and communication | 6.9 | 6.3 | -0.7 | -9.6% |
| 6 | Financial and insurance activities | 3.5 | 2.3 | -1.2 | -35.1% |
| 7 | Real estate activities | 8.0 | 8.3 | +0.3 | +3.2% |
| 8 | Professional, scientific, technical, administrative and support service activities | 4.7 | 4.8 | +0.1 | +2.1% |
| 9 | Public administration and defence, education, human health, and social work activities | 25.4 | 26.3 | +0.9 | +3.5% |
| 10 | Other service activities | 1.1 | 1.2 | +0.1 | +6.5% |
| Total | Gross domestic product (GDP) | 220.1 | 254.7 | +34.6 | +15.7% |

Source: Falkland Islands National Accounts (latest report available [at this link](#)); FIG DPED analysis

Tourism, broadly defined to include the provision of accommodation, meals and other services and amenities to tourists, is not recognised as a discrete industry (that is because industries are defined according to the activity they perform, rather than the identity of their customers).

However, the Falkland Islands Tourist Board produces the Tourism Satellite Account (TSA) on a biannual basis. The latest TSA, for the 2018 calendar year, calculates that tourism gross value added was £5.5m in 2018 (2.2% of GDP¹³), up from £3.8m (or 1.3% of GDP) in 2016.¹⁴

2.1.3. Gross domestic product excluding resource sectors

A significant proportion of GDP is generated in two economic sectors involved in the extraction and collection of natural resources, i.e. 'Fishing and aquaculture' and 'Oil and gas exploration and development'¹⁵ (see Figure 8).

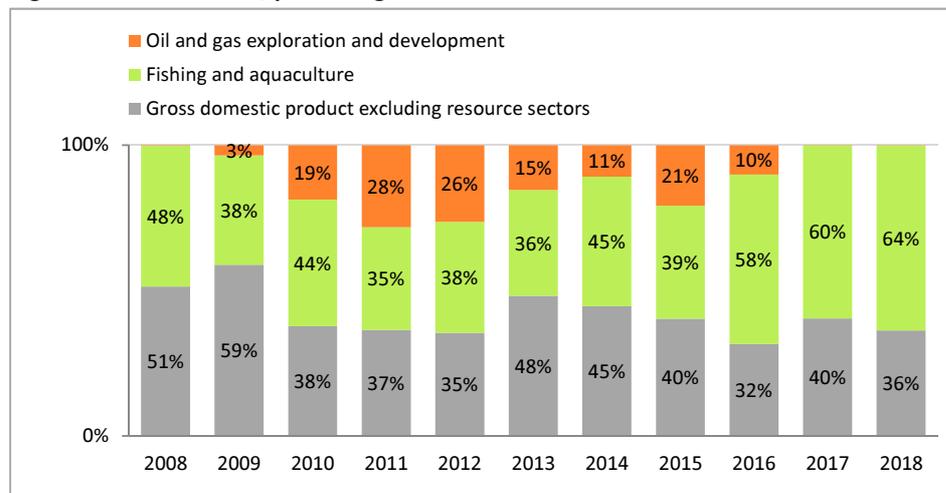
¹³ Or 6.5% of 'non-resource GDP' (please see Section 2.1.3 for more info on this statistics).

¹⁴ Falkland Islands Tourist Board, Acorn, Tourism Satellite Account 2016, December 2018; and Tourism Satellite Account 2018, March 2021.

¹⁵ 'Oil exploration and development' includes economic activity carried out by oil and gas licensees in ISIC section B 'Mining and quarrying', as well as other economic activity directly related to oil and gas exploration carried out by oil and gas licensees' supporting companies in other ISIC sections, namely section F 'Construction', section H 'Transportation and storage', section I 'Accommodation and food service activities', and section M 'Professional, scientific and technical activities'.

The share of GDP generated within the fishing sector, in particular, has significantly grown in recent years – from 35% in 2011 to a max of 64% in 2018.

Figure 8: Nominal GDP, percentage share of resource vs. non-resource sectors



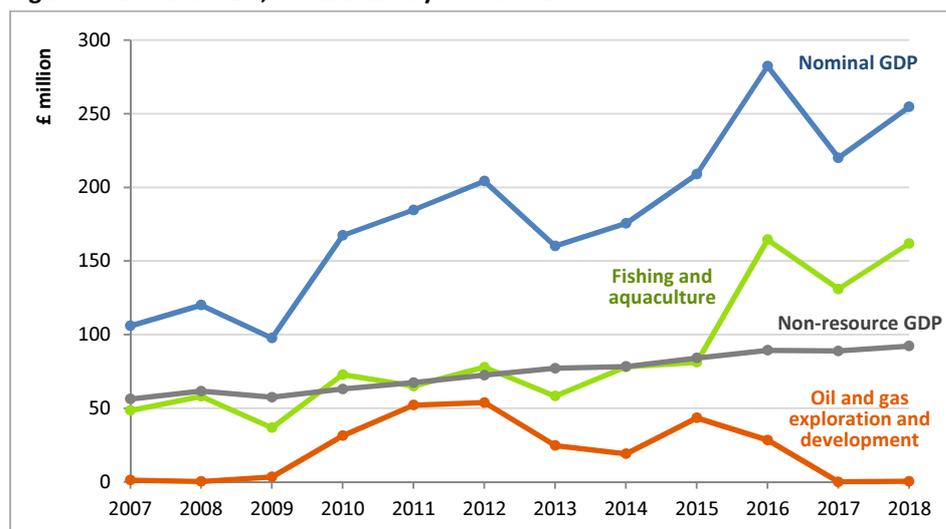
Source: Falkland Islands National Accounts (latest report available [at this link](#)); FIG DPED analysis

Is the reduction in the percentage of non-resource GDP an indication of the development of a 'Dutch disease' phenomenon? See Box 5

Both the fishing sector and the oil and gas exploration sector have exhibited a great degree of volatility in the past. Therefore, excluding them, and estimating the net contribution to GDP of the other sectors of the economy (i.e. isolating the so-called 'non-resource GDP'), is a useful exercise to monitor the health and sustainability of national economic growth.

Figure 9 shows how nominal GDP has grown over time, when breaking down the contribution of oil and gas exploration, fishing and aquaculture, and the non-resource sectors. When the contribution of the fishing and oil exploration sectors is excluded, nominal GDP growth appears much steadier.

Figure 9: Nominal GDP, breakdown by resource vs. non-resource sectors

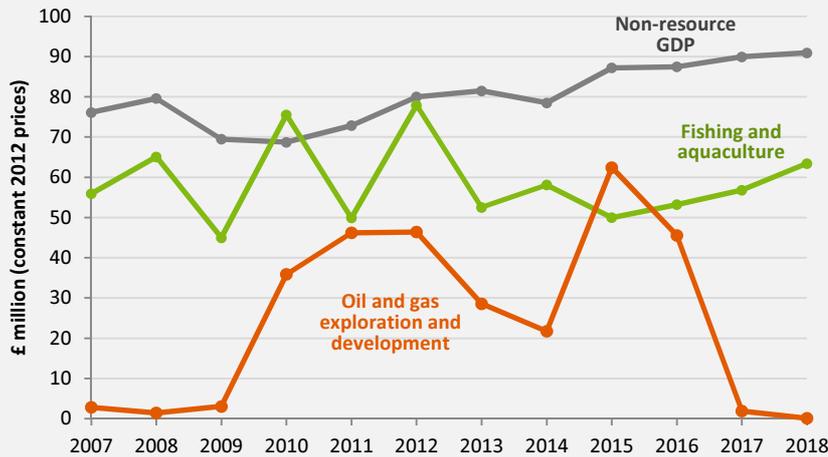


Source: Falkland Islands National Accounts (latest report available [at this link](#)); FIG DPED analysis

Box 4. How can the seemingly low growth rate of real GDP in the last decade (2007-2018) be explained?

The average rate of growth of real GDP over the last decade is close to one percent per year mostly because, between 2007 and 2018, the fishing sector GVA did not show as significant growth in real terms as in nominal terms (+£8m in constant 2012 prices, compared to +£113m in current prices) (see Figure 10).

Figure 10: GVA at constant 2012 prices: resource and non-resource sectors



Source: Falkland Islands National Accounts database; FIG DPED analysis

Non-resource GDP has experienced a steady growth in real terms over the last decade. Non-resource GDP in constant prices has been growing at a compounded average growth rate of +3.0% per year between 2009 (i.e. at the trough that followed the Great Financial Crisis) and 2018.

→ **International benchmarking** box on 'Growth in real non-resource GDP' below

International benchmarking Growth in real non-resource GDP

Based on the observed compound annual growth rate in non-resource GDP at constant prices (+3.0% per year between 2009 and 2018), the Falkland Islands are at the 66th percentile of a sample of high-income countries (excluding resource-rich countries to allow for greater comparability).

Figure 11: Real GDP, CAGR 2009-2018

High-income countries, excluding resource rich countries (i.e. countries with resource rents >20% of GDP on average between 2009-2018)



Source: Source: Falkland Islands National Accounts database and [the World Bank](#); FIG DPED analysis

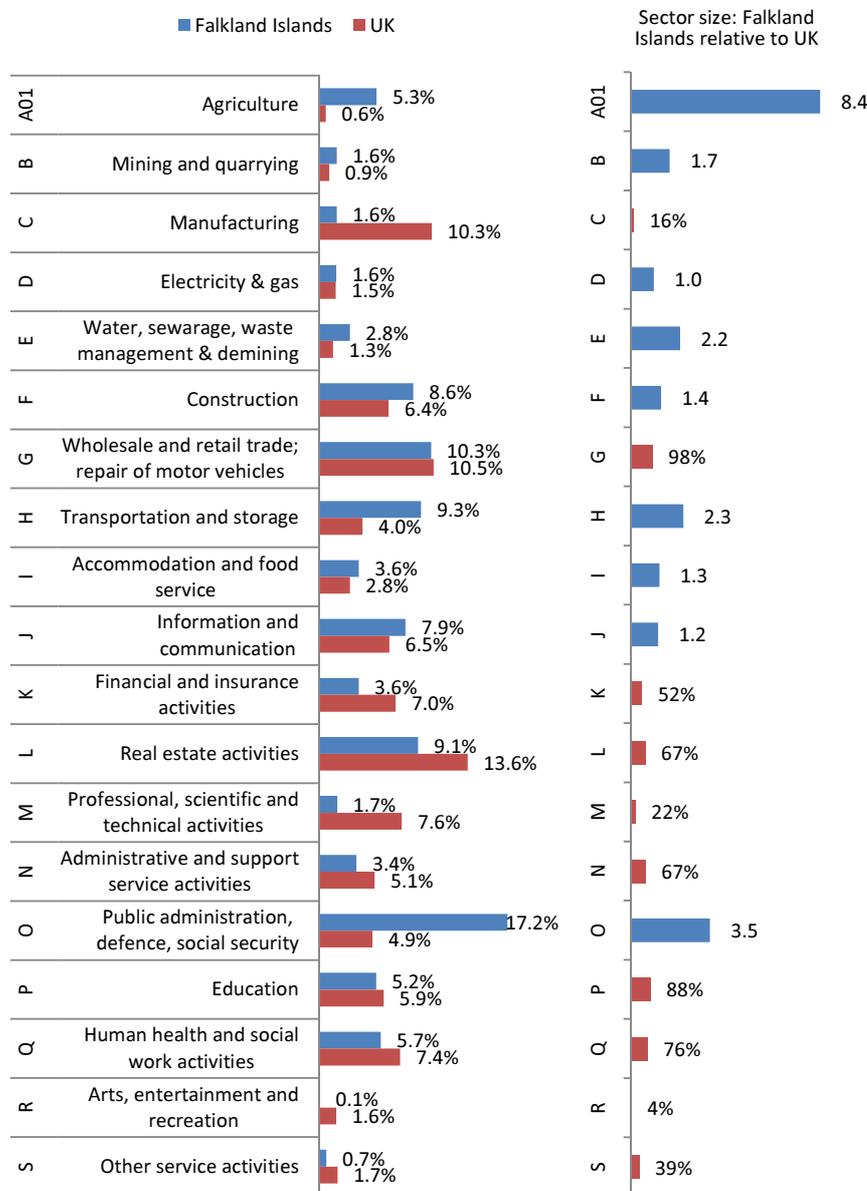
International benchmarking GDP by industry – a comparison with the UK

Fishing and aquaculture represented, on average between 2014 and 2018, 0.04% of GDP in the UK – while it was 54% of GDP in the Falkland Islands on average over the same period of time. Oil exploration also represented a significant share of the Falkland Islands GDP (8% on average between 2014 and 2018). Excluding these two sectors allows for a comparison with the UK economy.

As shown in Figure 12, for example, the agricultural sector is proportionally 8.4 times larger in the Falkland Islands than in the UK, while the public sector is 3.5 times bigger. In contrast, manufacturing is only 16% of its relative size in the UK, and ‘Arts, entertainment and recreation’ services are only 4%.

Figure 12: GDP by industry, Falkland Islands vs. UK

Current prices, average of 2014-2018
 Falkland Islands GDP: resource sectors are excluded



Source: Falkland Islands National Accounts database and Eurostat; FIG DPED analysis

Box 5. Is the reduction in the percentage of non-resource GDP an indication of the development of a ‘Dutch disease’ phenomenon?

As shown in Figure 10, non-resource real GDP has been growing at a steady compound annual growth rate of +3.0% between 2009 and 2018. Therefore, there is no evidence that the growth in the GDP share of the fishing sector recorded between the early 2010s and 2018 did occur at the expense of other sectors of the economy.

In other words, there is no evidence of the emergence of a ‘Dutch disease’ in the Falkland Islands – that is, the causal relationship, observed in other jurisdictions, between the development of a specific sector (usually natural resources or minerals) and the decline in other sectors. On the contrary, the development of the fishing sector has driven the growth of other sectors of the economy, given that:

- a) the fishing industry has an important local economic spin off in sectors such as transport and storage, or administrative and support services; and
- b) over the past years fishing companies have been investing in subsidiary companies in other sectors of the economy, such as retail and real estate.

Moreover, fishing companies pay a substantial amount in fishing licence fees and corporation tax to FIG every year, and thus contribute to the growth of the local economy indirectly (via public expenditure).

2.1.4. Generation of income account

The previous Sections have discussed a number of results deriving from what is called the ‘production approach’ (or ‘value added approach’) to GDP estimation, whereby each industry’s gross output is first estimated and then intermediate inputs from other industries are subtracted to derive each industry’s residual value-added – the aggregate sum of which is GDP.

A second approach to estimating GDP, the ‘income approach’, measures the income earned by the different factors of production (in particular, labour and capital).¹⁶ Therefore, while the first approach measures how GDP is *generated*, the second measures how GDP is then *distributed* and split between labour and capital remuneration.

Based on the ‘income approach’, Figure 13 shows how GDP between 2007 and 2018 broke down into compensation of employees, net¹⁷ operating surplus, net mixed income, consumption of fixed capital (i.e. depreciation of fixed assets), and taxes less subsidies on production and imports.¹⁸

¹⁶ A third approach, the ‘final expenditures approach’, shows what is happening across different types of spending such as consumption, investment, and exports less imports.

¹⁷ I.e. net of depreciation of fixed capital.

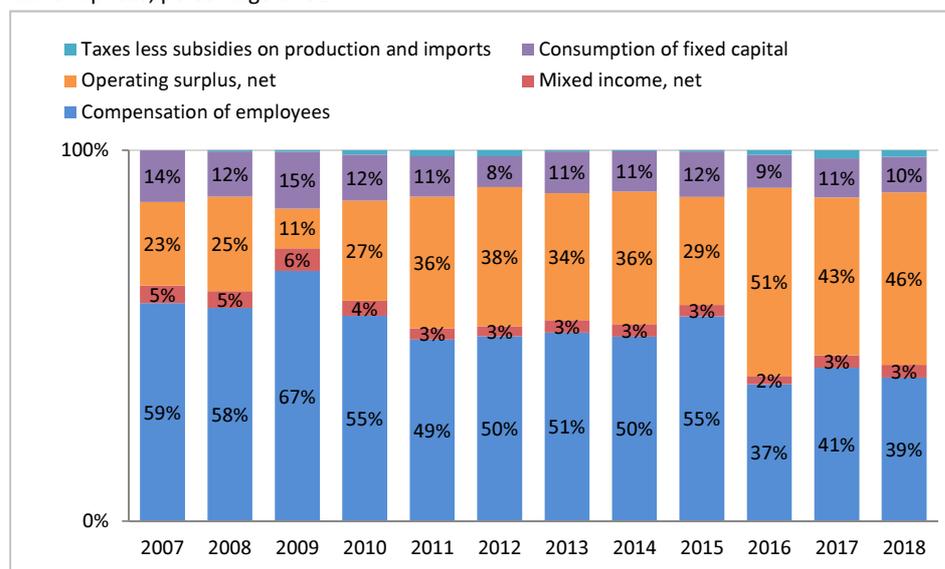
¹⁸ Please note that:

- compensation of employees includes pension and social contributions in addition to wages and salaries;
- operating surplus measures the surplus generated by production activities carried out by incorporated companies (before interest and other payments on financial assets, taxes on profits, and rents);
- mixed income refers to the surplus received by self-employed and partnerships, which is made of compensation to business owners for the supply of both labour and capital to the business.

Figure 13 shows that, between 2007 and 2018, the ‘labour income share’ (or ‘labour share of GDP’) – that is, the part of national income allocated to labour compensation¹⁹ – decreased by 20 percentage points (from 59% to 39%). By comparison, the ‘profit income share’ – that is, the share of national income distributed as capital remuneration – has increased by 23 percentage points (from 23% to 46%).

Figure 13: Distribution of primary income, 2007-2018

Current prices; percentage of GDP



Source: Falkland Islands National Accounts database; FIG DPED analysis

How can the gradual reduction in the labour income share be explained? See Box 6

→ **International benchmarking** box on ‘Labour share of income’ at p. 27

Box 6. How can the gradual reduction in the labour income share be explained?

Figure 14 shows how compensation of employees, mixed income, operating surplus, and consumption of fixed capital have evolved between 2007 and 2018.

Compensation of employees has increased by 69% in nominal terms (from £62m to £99m) while operating surplus has increased five-fold (from £24m to £118). This suggests that the labour income share has decreased in time not because of a reduction in the absolute value of compensation of employees²⁰, but because of a relatively much faster growth in operating surplus.

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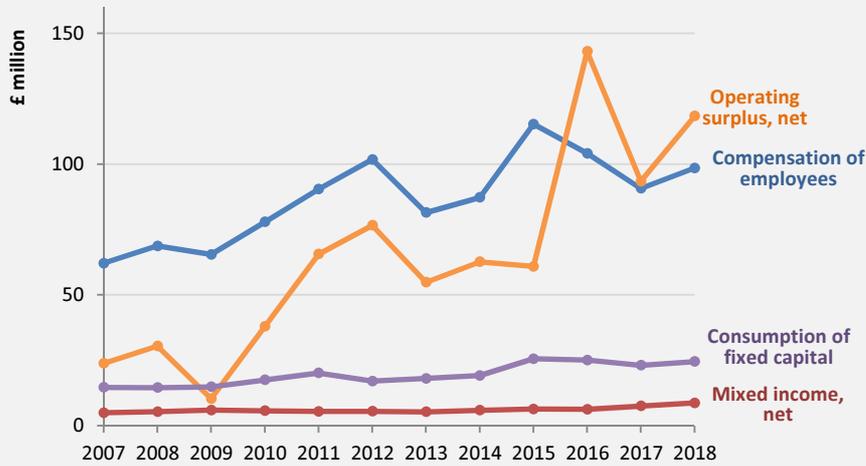
¹⁹ For the sake of simplicity, compensation of employees is taken as a proxy measure for labour income share. The latter would actually be slightly higher as it should include, in addition to compensation of employees, the share of mixed income (i.e. the surplus of self-employed workers and partnerships) destined for business owners for the supply of their own labour.

²⁰ Please note, however, that the 69% growth in compensation of employees between 2007 and 2018 is in aggregate and nominal terms (that is, not adjusted for population growth or inflation). When adjusted for both population growth and inflation, compensation of employees in 2018 was 97% of its value in 2007 (see Figure 31) – that is, no real growth in compensation of employees has occurred over the last decade.

The growth in aggregate operating surplus has been driven by growing profitability levels in the fishing industry. As shown in Figure 15, on average between 2017 and 2018, operating surplus was equal to 64% of the fishing sector's GVA, compared to 17% in non-resource sectors on average.

Figure 14: Distribution of primary income, 2007-2018

Current prices; £ million

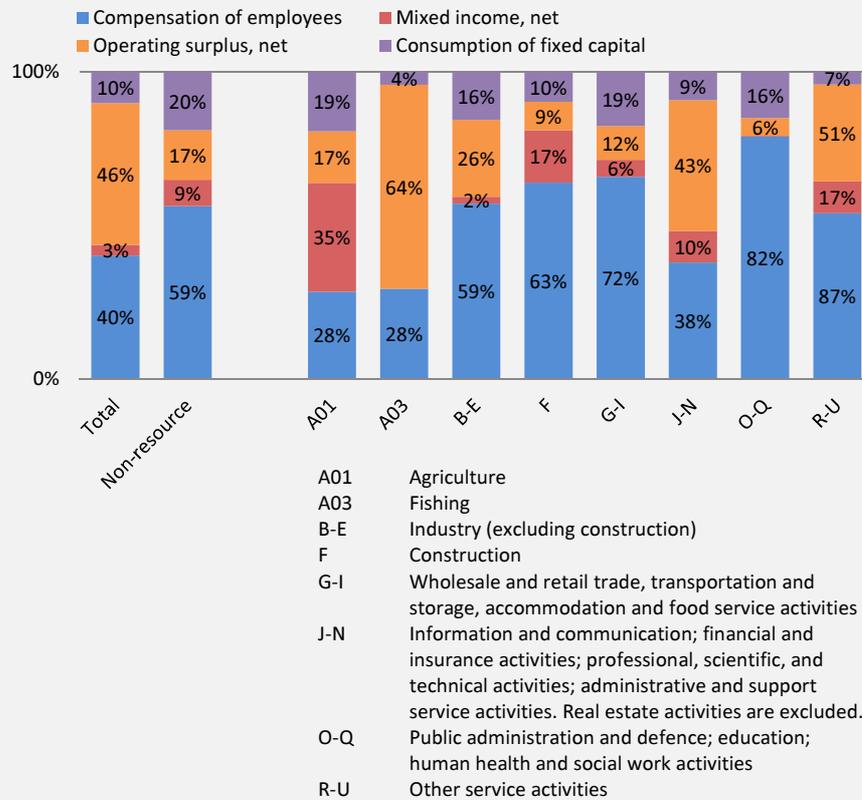


Taxes less subsidies on production and imports are not shown in the chart

Source: Falkland Islands National Accounts database; FIG DPED analysis

Figure 15: Distribution of primary income by economic activity group

Current prices; percentage of GDP; average of 2017-2018



Taxes less subsidies on production and imports are not shown in the chart

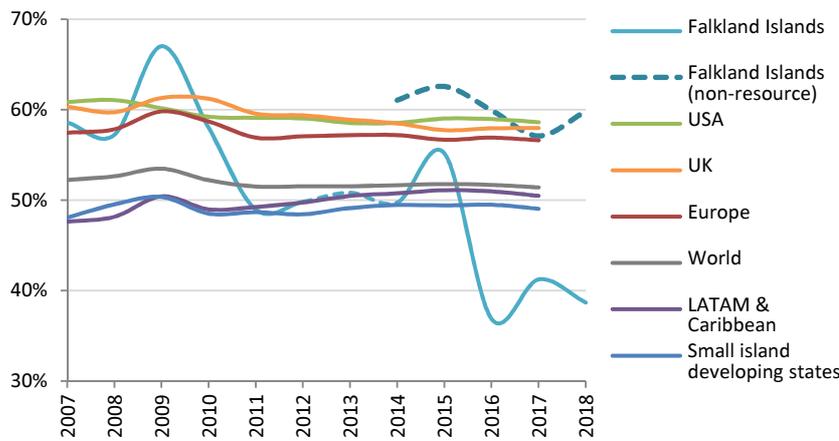
Source: Falkland Islands National Accounts database; FIG DPED analysis

International benchmarking Labour share of income

Figure 16 compares the trend in labour share of income in the Falkland Islands, compared to a sample of other countries or groups of countries. Labour share of income has decreased, in the Falkland Islands, from a level close to 60% in 2007-2010 to ca. 40% in 2016-2018 – a level significantly lower than the world average (51% in 2017) or what is observed on average in small island developing states (49%).

However, when looking to our non-resource sectors only, it appears that labour share of income in the Falkland Islands was fluctuating around an average of 60% in 2014-2018 – a level similar to what is observed in Europe, the UK, and the US (respectively, 57%, 58%, and 59% in 2017).

Figure 16: Labour share of GDP



Source: Falkland Islands National Accounts database and [International Labour Organization](#); FIG DPED analysis

2.1.5. GDP per capita and gross national income per capita

Gross domestic product per capita was £81.8k in 2018, based on an estimated resident population²¹ of 3,113²², up from £72.3k in 2017 (+13.5%).

GDP per capita, however, is not a very good indicator of the economic welfare of Falkland Islands residents. Gross national income (GNI) is deemed to be a better indicator compared to GDP. GNI per capita for 2018 was £54.8k, up from £49.4k in 2017 (+10.9%). The following figure shows how GDP per capita and GNI per capita have changed between 2010 and 2018.

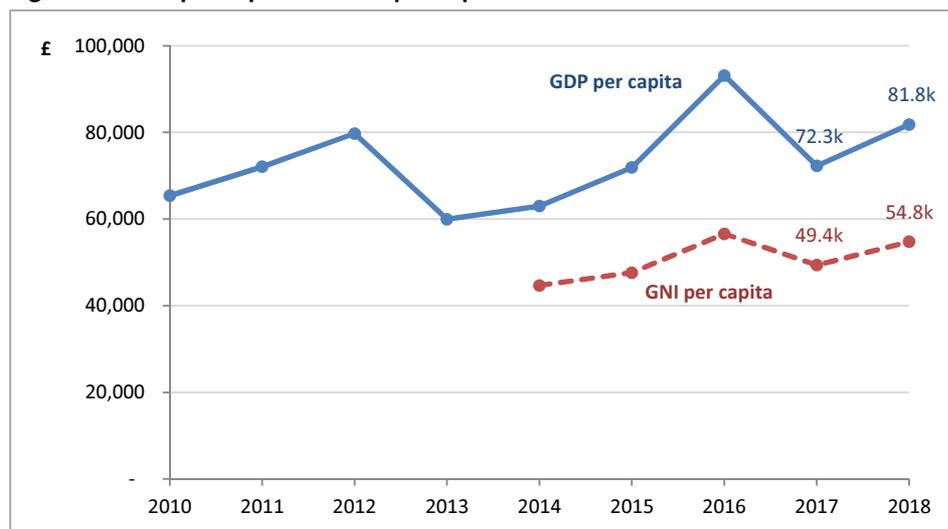
What is the difference between GDP and GNI? See Box 7

→ International benchmarking box on 'GDP and GNI per capita' at p. 29

²¹ For the purposes of national accounts, resident population is defined as the census population excluding people resident in MPC and including those temporarily absent during the census. Similarly, output produced by institutional units resident in MPC (e.g. civilian contractors serving only the military) is excluded from Falkland Islands GDP.

²² The last official population counts available are those published in the 2016 Falkland Islands Census report (according to which, resident population amounted to 3,032 in 2016). Resident population estimates for 2018 have been based on a population growth model first developed in June 2018 by the FIG Policy and Economic Development Department, which aims at projecting population growth in the Falkland Islands under a number of scenarios and based on a set of assumptions on natural population growth and net migration inflow (derived from an analysis of births and deaths data, as well as data from the FIG Customs & Immigration Department on the issue of Work Permits in recent years), and which has been regularly updated based on new information being available.

Figure 17: GDP per capita and GNI per capita



Source: Falkland Islands National Accounts (latest report available [at this link](#)); FIG DPED analysis

Box 7. What is the difference between GDP and GNI?

Gross *domestic* product measures what is produced, every year, within the border of a country (e.g. the Falkland Islands) by national resident individuals and companies, as well as foreign resident individuals and companies.

- a. On the one hand, many companies operating in the Falkland Islands are owned, wholly or partially, by shareholders resident overseas; similarly, much of the labour in the Falkland Islands economy is performed by non-residents (particularly in the fishing and oil and gas industries).

Non-resident companies' operating surplus and non-resident workers' wages represent income that is generated within the geographical borders of the Falkland Islands but it is not earned by Falkland Islands resident companies or individuals.

- b. On the other hand, income earned by Falkland Islanders on activities abroad is a net contribution to the economy, but it is not included in GDP and thus does not contribute to GDP per capita levels.

Gross *national* income (GNI) is an estimate of the income received by residents of an economy regardless of where the activity generating that income takes place, and is derived by adjusting GDP for net foreign income (i.e. income that Falkland Islands resident individuals and companies receive from abroad, less income earned by foreign residents from economic activity carried out in the Falkland Islands).

Does the income earned by foreign residents physically "leave" the Islands? See Box 8

Is GNI per capita the same as the average income of Falkland Islands residents? See Box 9

Box 8. Does the income earned by foreign residents (from economic activity carried out in the Falkland Islands) physically "leave" the Islands?

Not necessarily. It is income that is owned by foreign-resident individuals or companies, however most of it "remains" in the Falkland Islands – as in the case of retained earnings (i.e. operating surpluses which are not distributed to shareholders in the form of dividends) by foreign-owned resident companies.

International benchmarking GDP and GNI per capita

In 2018, the Falkland Islands was ranked fifth in the world by GDP per capita (see Figure 18). GDP per capita in the Falkland Islands was \$109k – 2.5 times the UK figure (\$43k) or 10 times the world average (\$11k).

Why is GDP per capita so high in the Falkland Islands? See Box 10

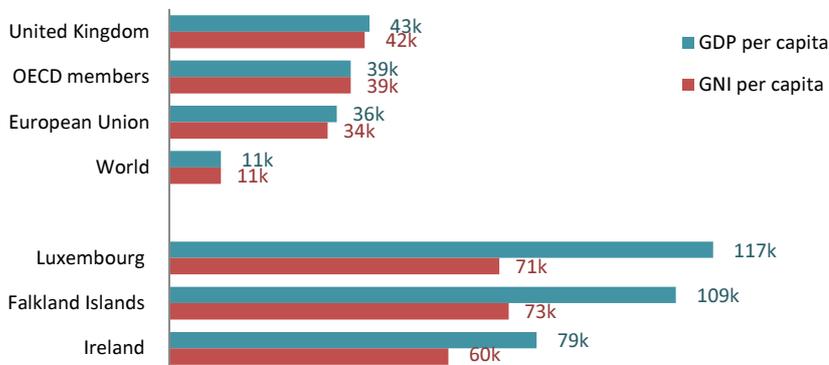
Figure 18: GDP per capita, 2018 (current USD)



Source: Falkland Islands National Accounts database and [the World Bank](#); FIG DPED analysis

GNI per capita is normally very similar to GDP per capita. Some countries, however, record significant discrepancies between the two values: e.g. Luxembourg (see Figure 19), where a 90k-strong labour force commute across the border every day from Germany, France, Belgium and the Netherlands, often to work in highly productive financial services. These workers are not counted as part of Luxembourg’s population of ca. 450k. This explains the large difference between GDP per capita and GNI per capita in Luxembourg.

Figure 19: GDP per capita and GNI per capita, 2018 (current USD)



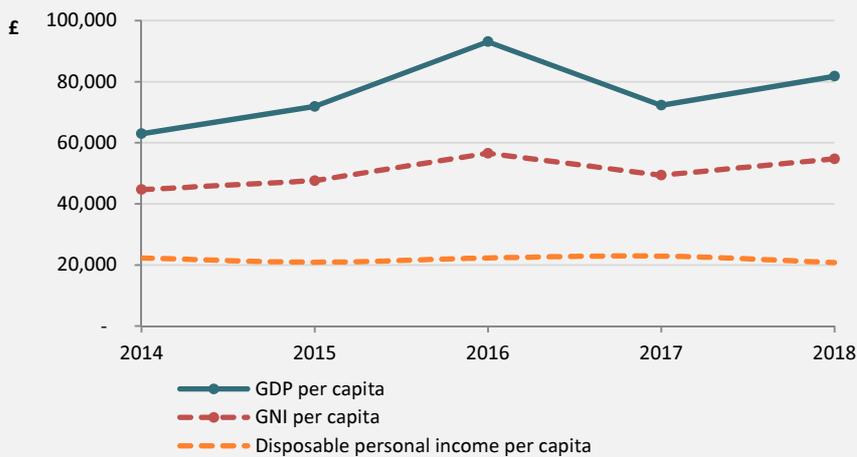
Source: Falkland Islands National Accounts database and [the World Bank](#); FIG DPED analysis

Box 9. Is GNI the same as the average income of Falkland Islands residents?

No. GNI also includes income streams such as companies’ retained earnings, as well as licence fees and investment income accruing to FIG, therefore is higher than the average *personal* income to resident individuals.

The average annual income for all people in employment in 2016 was £26.3 thousand (source: Falkland Islands Census 2016); while the disposable personal income²³ per capita (thus averaged across total population rather than people in employment only) can be estimated at ca. £22 thousand (average of 2014-2018, see Figure 20).

Figure 20: Falkland Islands GDP, GNI, disposable personal income per capita



Source: Falkland Islands National Accounts database; FIG DPED analysis

Box 10. Why is GDP per capita so high in the Falkland Islands?

GDP per capita is calculated by dividing GDP by the resident population:

$$GDP\ per\ capita = \frac{GDP}{usually\ resident\ population}$$

GDP can be expressed as average gross value added (GVA) per worker (i.e. a measure of the average productivity of labour) times the total number of workers contributing to the generation of GDP:

$$GDP\ per\ capita = \frac{average\ GVA\ per\ worker \times total\ no.\ of\ workers}{usually\ resident\ population}$$

The Falkland Islands GDP per capita is very high, when seen from an international perspective, for two main reasons.

- a. In some years average GVA per worker has been particularly high, e.g. in 2016 it was close to £90 thousand per worker, mostly due to exceptionally high prices received on foreign markets for fishery exports.

→ continues on next page

²³ While the common interpretation of “disposable income” is income after tax and bills / outgoings are paid, here the term relates to after-tax income.

In most recent years, however, average GVA per worker has ranged between £50-£70 thousand per worker, a level not dissimilar to what is observed in the UK or in OECD countries on average.

- b. The main reason is a less episodic one. It relates to the relatively large proportion of non-resident workers out of the total number of workers contributing to the generation of GDP in the Falkland Islands.

Non-resident workers include, for example, fishermen on board vessels, and seasonal agricultural workers such as shearers. Fishermen on board vessels fishing under ITQ (i.e. those vessels whose activity contributes to the generation of GDP) can, alone, be estimated to amount to ca. 1,500; which is a size not dissimilar to the entire Falkland Islands land-based labour force in employment (1,829 in 2016 according to the last Census).

Non-resident workers are not included in the estimates of usually resident population (the denominator in the ratio from which estimates of GDP per capita are derived). As a result, for comparable levels of average productivity of labour, GDP per capita in the Falkland Islands is structurally higher than in countries, such as the UK, where the proportion of non-resident workers over the total is negligible.

2.2. Income inequality

In Box 9, it was noted that the average annual income for all people in employment in 2016 was £26.3 thousand. While this figure provides useful information on the average level of personal income, it says nothing about how individual income levels are distributed around that average level. As discussed later (Box 11 at p. 35), the same average level could derive from a very fair or very unequal distribution of income.

A large gap between those at the lower end and those at the upper end of the income scale can raise moral, social, economic, and political challenges. How large is this gap in the Falkland Islands, and is it growing or decreasing? To answer these questions, average income statistics (e.g. GDP per capita and GNI per capita) need to be supplemented with income inequality measures i.e. information about the distribution of income within society. Income inequality measures for the Falkland Islands are now available.

Income inequality statistics include:

- summary statistics on distribution of income, e.g. income shares of different groups in a country's total income (see Section 2.2.1); and
- the Gini coefficient (see Section 2.2.2).

Please note that statistics presented in this Section look to **income inequality** only – that is, inequality in the distribution of personal income within a society. This concept differs from other inequality measures such as:

- **economic inequality** – that looks to the unequal accumulation of wealth in addition to unequal distribution of annual income;
- **social inequality** – that refers more generally to disparities in access to resources and rights, and is more prevalent in societies where access is dependent on wealth, ethnicity or religion, or stems from differential legislation.

Therefore, it is not possible to draw conclusions on *social inequality* in the Falkland Islands based only on *income inequality* measures. For the same reason, a comparison with countries that, compared to the Falkland Islands, have limited pre-distribution mechanisms – such as universal health, public education, social housing, and other institutions that are important for reducing inequality as well as taxes and transfers – is a challenging task.

As discussed in the *International benchmarking* box on government expenditure, government expenditure per capita in areas such as health and education is generally higher in the Falkland Islands than in most other high-income countries. Therefore, social inequality is likely to be lower in the Falkland Islands than in countries with comparable levels of income inequality.

Furthermore, to get a bigger picture, inequality measures should be complemented with data on absolute poverty levels, as similar levels of income inequality could be associated with varying levels of the share of the population living below certain poverty thresholds (see Section 2.2.5 at p. 42).

→ **International benchmarking** box on 'Government expenditure' at p. 49

2.2.1. Distribution of income in the Falkland Islands

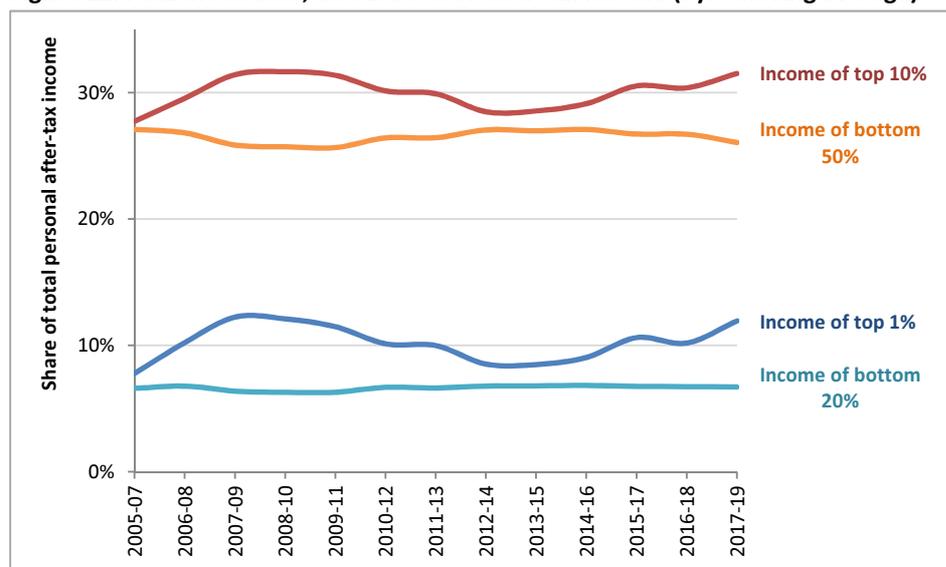
Data on the income shares of different groups in a country's total income are useful statistics to get an intuitive sense of income inequality in a certain country.

As shown in Figure 21, in the Falkland Islands, on average between 2005 and 2019:

- the bottom 20% of income earners earned 7% of total (after-tax) personal income;
- the bottom 50% earned 26% of total income;
- the top 10% earned 30% of total income;
- the top 1% earned 10% of total income.

→ **International benchmarking** box on 'Share of household income held by the top 10%' at p. 33

Figure 21: Falkland Islands, distribution of after-tax income (3yrs moving average)



Source: FIG Taxation data; FIG DPED analysis

International benchmarking Share of household income held by the top 10%

Figure 22: Share of after-tax household income held by the top 10%, 2015

(Falkland Is.: 3yrs average 2017-19)

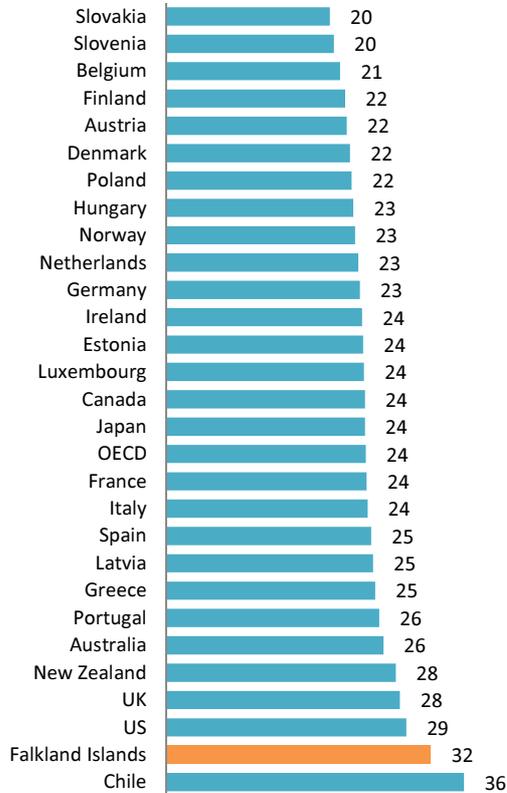


Figure 22 lists a number of high-income countries sorted by the share of total after-tax household income held by the top 10%. The Falkland Islands, with 32% of total household income held by the top 10% in 2017-19, is among the countries at the top of the list.

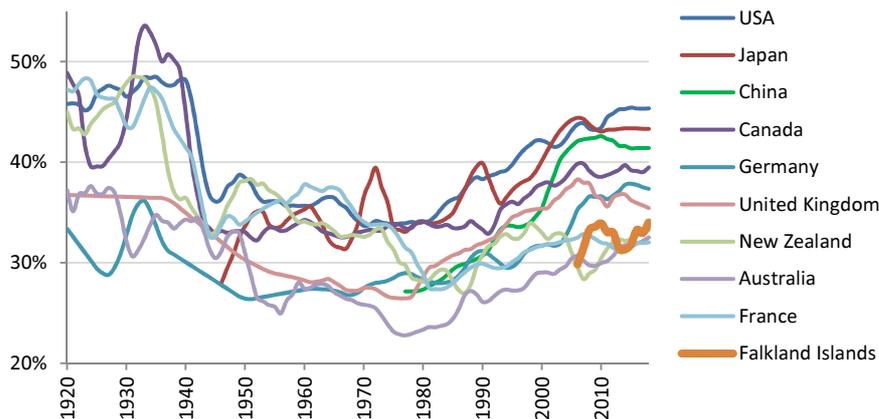
Figure 23 shows how the share of pre-tax income held by the top 10% has changed between 1920 and 2018 in a number of countries. After declining for many decades, income held by the top 10% started growing again in the 1980s.²⁴

Sources:

- Peterson Institute for International Economics (2020), [How to Fix Economic Inequality? An Overview of Policies for the United States and Other High-Income Economies](#) (hereinafter: PIIE, 2020), and
- FIG Taxation data; FIG DPED analysis

Figure 23: Share of total pre-tax income held by the top 10%, 1920-2018

3-year centred moving averages



Source: [World Inequality Database](#) and FIG Taxation data; FIG DPED analysis

²⁴ The Falkland Islands is among the countries with a higher share of *after-tax* income held by the top 10% (Figure 22); this is not the case when looking to *pre-tax* income (Figure 23). This is explained by very small redistribution effects by taxes and transfers in the Falkland Islands. For more information, please see the *International benchmarking* box on 'Tax and transfers reduction in income inequality' at p. 37.

2.2.2. The Falkland Islands Gini coefficient

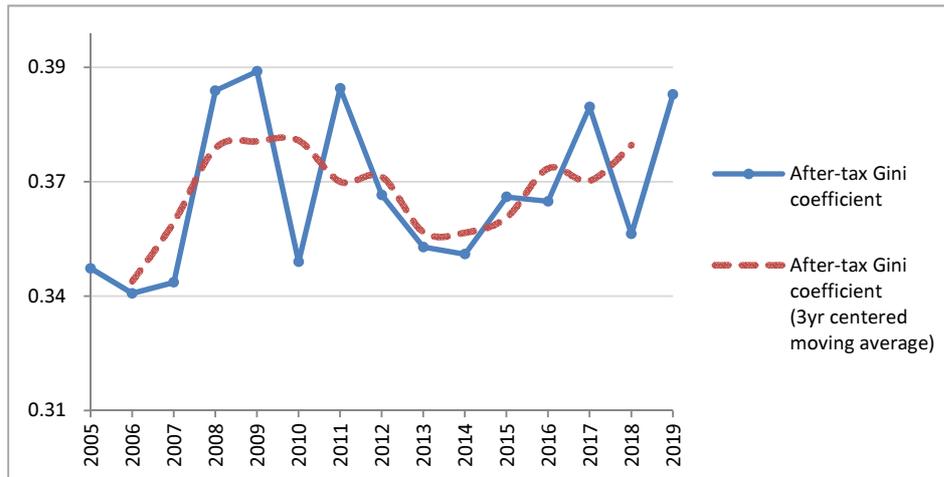
The Gini coefficient is a measure of statistical dispersion intended to represent the income inequality within a nation or any other group of people. It goes from zero to one, with zero meaning perfect income equality (i.e. everyone earns the same income) and one meaning maximum income inequality (i.e. one person alone earns the total disposable income).

As shown in Figure 24, between 2005 and 2019, the Falkland Islands' after-tax Gini coefficient fluctuated between 0.34 and 0.39. The three-year average has grown from 0.34 in 2005-07 to 0.37 in 2017-19.

How is the Gini coefficient calculated?
See Box 11

→ International benchmarking box on 'Levels of income inequality around the world' at p. 36

Figure 24: Falkland Islands Gini coefficient

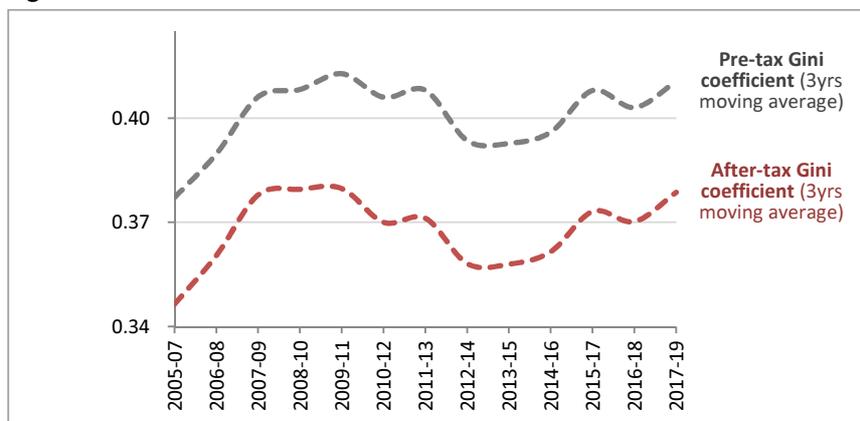


Source: FIG Taxation data; FIG DPED analysis

The *after-tax* Gini coefficient takes into account the redistribution effects due to taxation and social benefits. This measure can be compared with the *pre-tax* Gini coefficient, which looks to income inequality before taxes and social benefits.²⁵ The gap between the two statistics (Figure 25) is a measure of the reduction in income inequality caused by the redistributive effects of progressive taxation and social welfare.

→ International benchmarking box on 'Tax and transfers reduction in income inequality' at p. 37

Figure 25: Pre- and after- tax Gini coefficient in the Falkland Islands

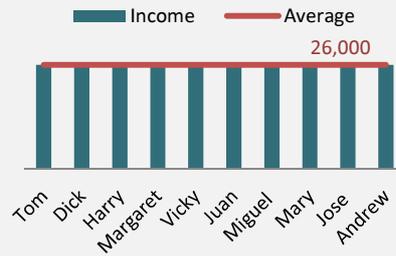


Source: FIG Taxation data; FIG DPED analysis

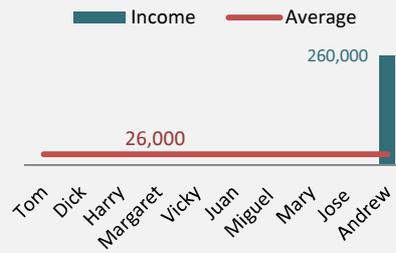
²⁵ 'Family allowances' is the only social benefit that is included in the database which underlies our analysis.

Box 11. How is the Gini coefficient calculated?

- When **Gini = zero**, it means that there is **perfect income equality**. This scenario is shown in the example to the right, where ten people receive the same exact level of income.

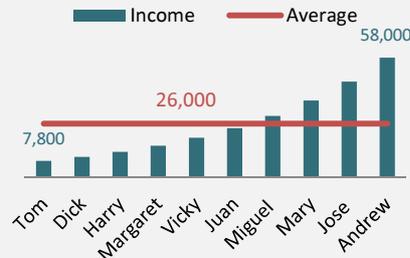


- At the other extreme (**Gini = 1**), there is **maximum possible income inequality**: a single person earns the total disposable income, while the other nine earn zero (notice that the average income is exactly equal to the previous example).



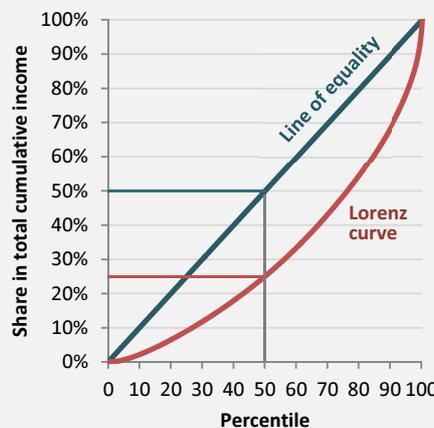
- These two extremes never occur in reality.

In reality, income levels are more or less equally distributed around the average. In this case, the **Gini coefficient is between 0 and 1**.



In the chart to the right, the **line of equality** represents the cumulative sum of all people's income in the first example (Gini = 0). In this case, the bottom half of the population receives exactly 50% of total income.

The **Lorenz curve** is derived from the actual distribution of income (third example above) by cumulatively adding the income of each person, sorted from lowest to highest income earner.



In this example, the bottom half of the population receives 25% of total income. The further the Lorenz curve moves away from the line of equal distribution, the higher inequality becomes. The Gini coefficient summarizes the position of the Lorenz curve. It is calculated as the area between the line of equal distribution and the Lorenz curve, divided by the total area below the line of equal distribution.²⁶

²⁶ The Gini coefficient is computed based on a series of assumptions; this can somewhat limit comparability between countries that adopt different methodologies. Our calculations are based on a dataset of individuals (not households) including all individuals earning more than £1k/year and resident all year round in the Falkland Islands.

International benchmarking Levels of income inequality around the world

Table 2 shows a classification of countries into four inequality groups. Based on distribution of income and Gini coefficient data (respectively, Figure 21 and Figure 24) and according to this classification, the Falkland Islands would be placed in the 'High inequality' group, together with the UK, the US, and many European countries.

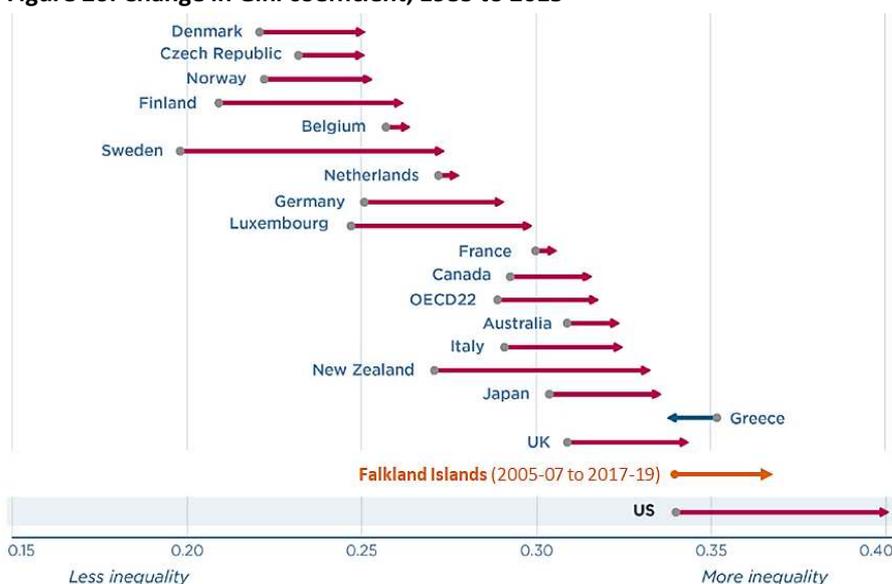
Table 2: Gini coefficients and typical income shares – four inequality groups

| | Low inequality | Moderate inequality | High inequality | Extreme inequality |
|---|--|---|---|--|
| Gini coefficient | ca. 0.20 | ca. 0.25 | ca. 0.35 | ca. 0.50 |
| Income share in a country's total income | | | | |
| Bottom 20% | ca. 12% | ca. 10% | ca. 7% | ca. 4% |
| Bottom 50% | ca. 36% | ca. 33% | ca. 26% | ca. 17% |
| Top 10% | ca. 18% | ca. 20% | ca. 26% | ca. 37% |
| Examples | | | | |
| | Slovakia 1992: 0.19 Sweden 1981: 0.20 Czechia 1992: 0.21 Finland 1987: 0.21 | Slovenia 2008: 0.19 Slovakia 2008: 0.24 Sweden 2008: 0.24 Czechia 2013: 0.25 Denmark 2013: 0.25 Hungary 2008: 0.25 Norway 2013: 0.25 Austria 2008: 0.26 Finland 2013: 0.26 Belgium 2008: 0.28 France 2008: 0.28 Romania 1997: 0.28 Croatia 2007: 0.29 | France 2013: 0.30 Germany 2008: 0.30 Ireland 2008: 0.30 Spain 2008: 0.31 Australia 2013: 0.32 Canada 2013: 0.32 Italy 2013: 0.32 Poland 2008: 0.32 N Zealand 2013: 0.33 Japan 2013: 0.33 Greece 2013: 0.34 UK 2013: 0.34 Portugal 2008: 0.36 US 2013: 0.40 | Russia 2000: 0.43 Uruguay 2004: 0.43 China 2003: 0.45 Turkey 2003: 0.45 Mexico 2004: 0.46 Venezuela 2000: 0.46 Tajikistan 1999: 0.47 Brazil 2006: 0.49 Colombia 2004: 0.51 Guatemala 2006: 0.51 Peru 2004: 0.51 Botswana 1994: 0.54 Chile 2000: 0.60 Bolivia 2000: 0.63 |

Source: International Labour Organization (ILO), 2011, *Inequality, income shares and poverty: The practical meaning of Gini coefficients* (report available at [this link](#)); and [PIIE, 2020](#)

Figure 26 shows that in the past, the Gini coefficient increased within most high-income economies, sometimes very significantly (e.g. Finland, Sweden, Luxembourg, New Zealand, the US). The US remains the most unequal high-income economy in the world.

Figure 26: Change in Gini coefficient, 1985 to 2013



Source: [PIIE, 2020](#) and FIG Taxation data; FIG DPED analysis

International benchmarking Tax and transfers reduction in income inequality

Figure 27 shows a comparison of the Gini coefficient before and after taxes and transfers in a number of high-income countries. For example, comparing the US with Finland shows that the two countries start from the same level of pre-tax income inequality (Gini = 0.51), but then tax and transfers work to redistribute income such that the Gini coefficient decreases to 0.27 in Finland and to 0.39 only in the US.

In the Falkland Islands, very small redistribution effects by taxes and transfers mean that the after-tax Gini coefficient is very high from an international perspective (at the top of the distribution, between the US and UK) – even though the pre-tax Gini coefficient is not. One reason for this can be traced to the personal income tax regime in the Falkland Islands. The average tax rate varies from 3% of pre-tax income for the bottom 10% of income earners, to 21% for the top 1%.²⁷

Figure 27: Gini coefficient before and after taxes and transfers

OECD countries: 2018 or latest available
Falkland Islands: 3yrs average 2017-19

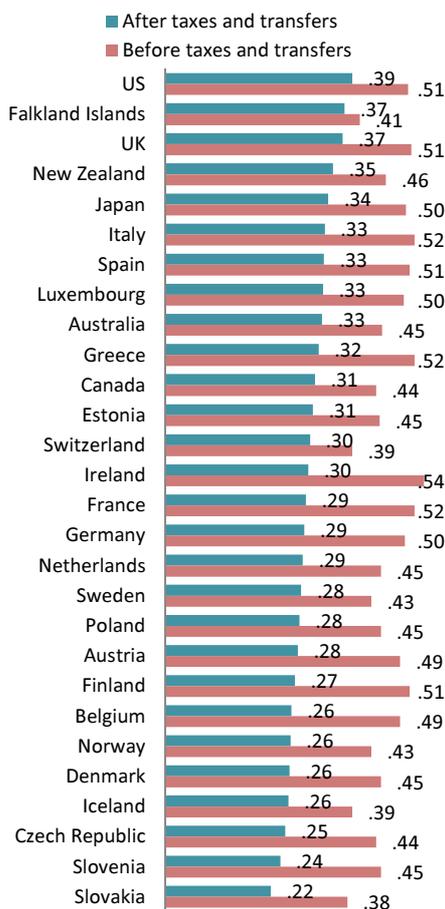
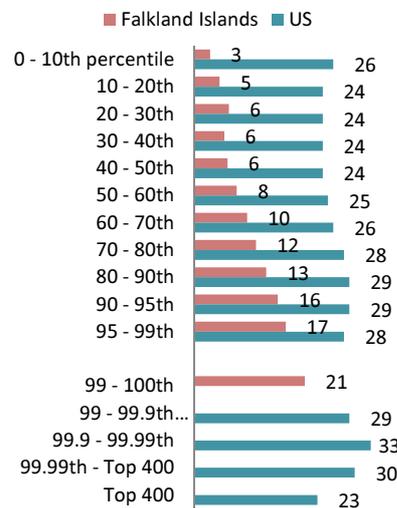


Figure 28 compares this data with the corresponding US figures and shows that the Falkland Islands' effective tax rate is lower for each income percentile.

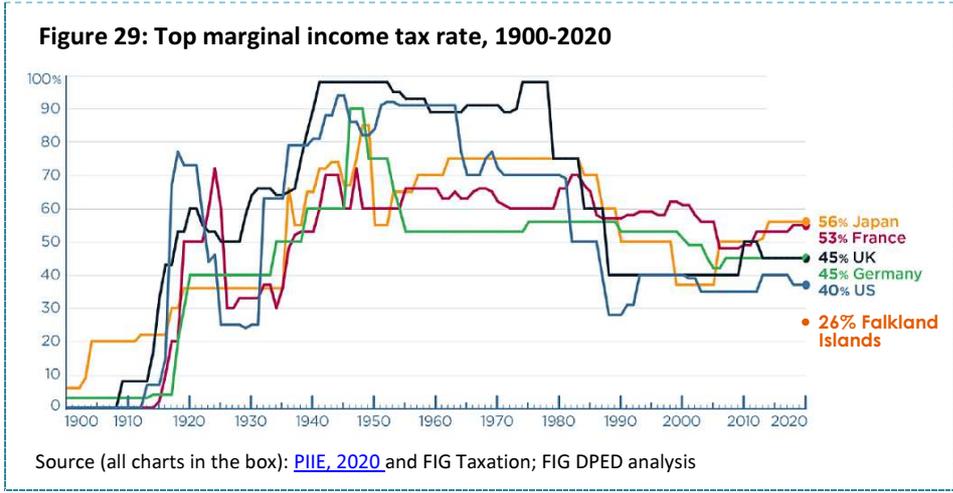
Figure 29 shows that the Falkland Islands top marginal income tax rate (26%) is low when compared with e.g. Japan, France, the UK, Germany, or the US.

Figure 28: Average tax rate by pre-tax income group



→ continues on next page

²⁷ Another reason may relate to the characteristics of the Falkland Islands welfare system, the administration of which was identified by a 2019 review as disjointed and complicated from both a system and a user perspective. Following that review, Executive Council recommended consolidation of the means-tested benefits into a single income support – to help ensure low-income households access the support they are entitled to – which is expected to launch in 2021.



2.2.3. Drivers of income inequality in the Falklands

Income inequality in the Falkland Islands increased between 2005 and 2011; then it decreased between 2011 and 2014, and increased again from 2014 to 2019 (see Figure 24). What drove these movements in the Gini coefficient?

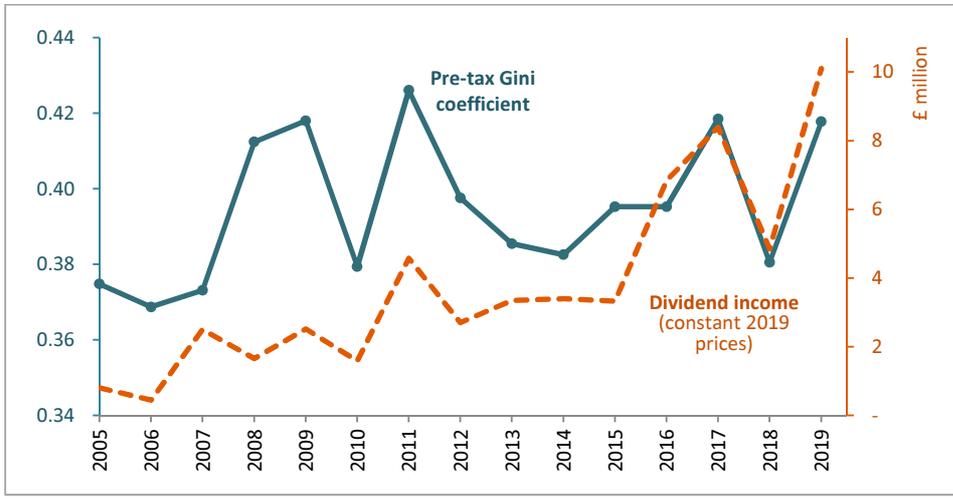
One of the clearest drivers of income inequality is the amount of dividends distributed to resident individuals every year – which goes to increase the share of overall income earned by the top 1% and top 10% of income earners. Figure 30 shows that there is a clear correlation between dividend growth and the Gini coefficient; this correlation is particularly evident e.g. in 2016-2019.

Figure 31 shows that dividend income grew at a relatively faster pace than income from other sources. When adjusted for inflation and population growth, dividend income grew 3.5 times in a decade (2006-08 to 2016-18), while: income from wages and salaries (also including director remuneration and benefits in kind) decreased by 3%; pension income decreased by 4%; self-employed and partnership income increased by 29%; and income from property and investment increased by 56%.

Why has dividend income increased so strongly? See Box 12

As a consequence, dividend income grew from 3% of total household income in 2006-2008 to 9% in 2016-2018.

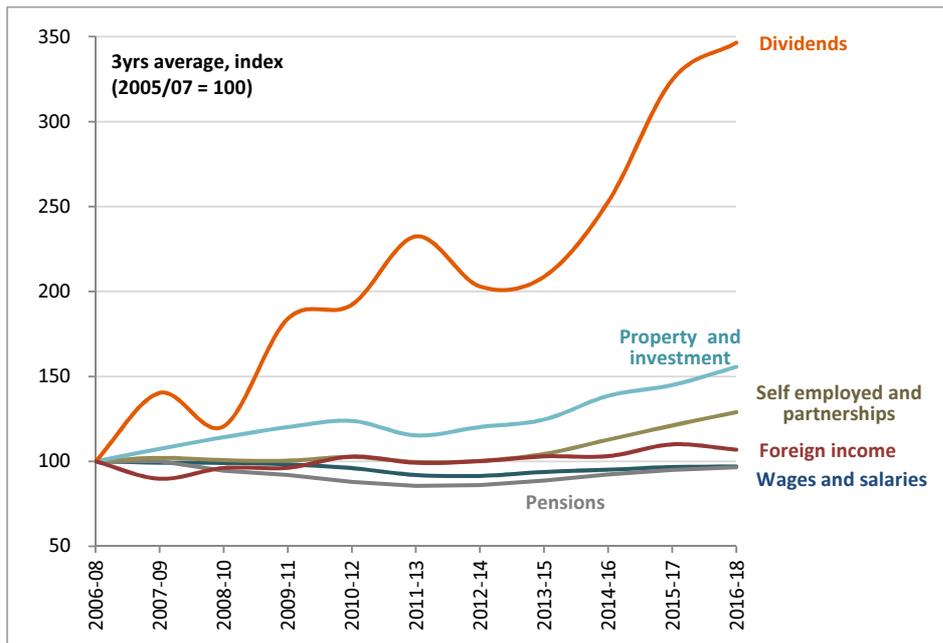
Figure 30: Gini coefficient and dividend income



Source: FIG Taxation; FIG DPED analysis

Figure 31: Falkland Islands, growth in personal income from different sources

Values are adjusted for both inflation and population growth



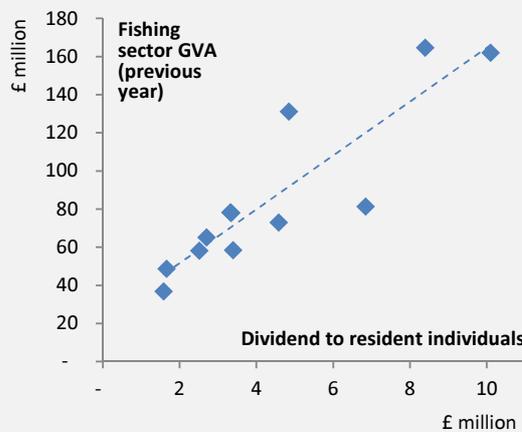
Source: FIG Taxation; FIG DPED analysis

Box 12. Why has dividend income increased so strongly?

Figure 32 shows that personal income received as a dividend is clearly correlated with the fishing sector's gross value added recorded in the previous year.

Hence, the main reason why dividend income increased so strongly in recent years can be traced back to the sharp increase in the fishing sector's GVA over the same period (Figure 9).

Figure 32: Fishing sector GVA and dividend income



Source: Falkland Islands National Accounts database and FIG Taxation; FIG DPED analysis

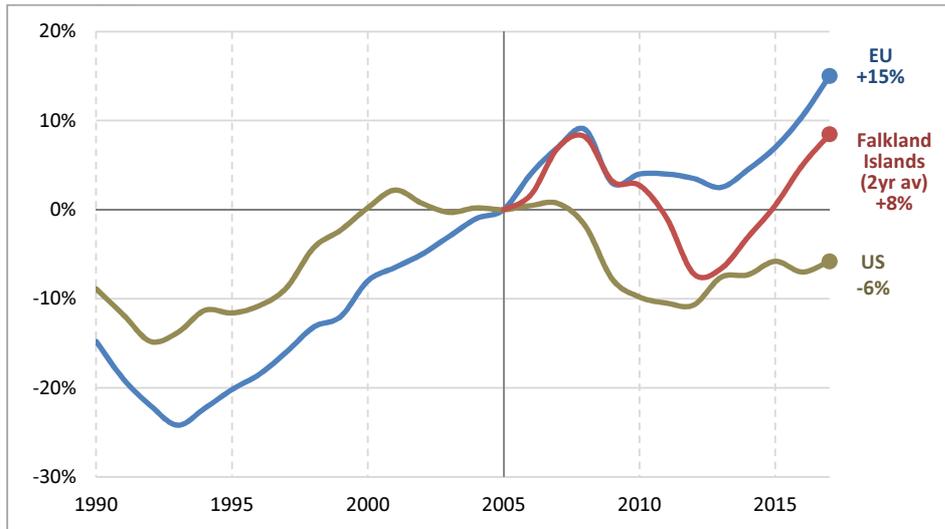
If the correlation between growth in dividends and the Gini coefficient is evident in 2016-2019, the significant growth of the Gini coefficient in the aftermath of the Global Financial Crisis (i.e. in 2008-2011 compared to 2005-2007) doesn't seem to be explained by a simultaneous increase in dividends.

Instead, it could be partly explained by the impact of the global crisis itself on the economy of the Falkland Islands, which is highlighted in the data in a ca. 15 percentage points reduction in the average pre-tax income of the bottom 50% of income earners between 2008 and 2012 (Figure 33). One channel through which the global crisis has affected the economy of the Falkland Islands is, for example, the reduction in the number of international tourists.

Does cruise tourism income help reduce income inequality?
See Box 13

Figure 33: Average pre-tax income growth of bottom 50% of population

Percentage growth relative to 2005



Source: [PIIE, 2020](#) and FIG Taxation; FIG DPED analysis

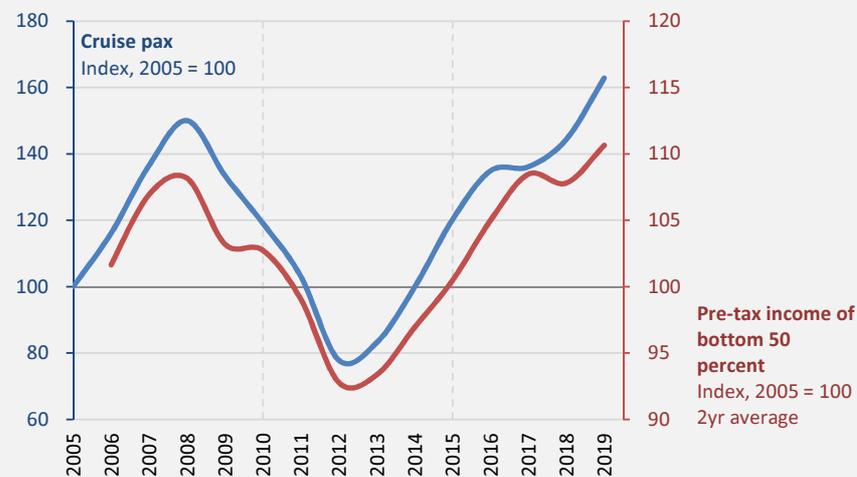
Box 13. Does cruise tourism income help reduce income inequality?

The average pre-tax income of the bottom 50% of income earners in the Falkland Islands has tracked very closely the EU curve until 2010. Then, data shows a much stronger reduction between 2010 and 2012 than in the EU (Figure 33).

A possible explanation links the average pre-tax income of the bottom 50% of income earners with the trend in cruise ship tourists. As shown in Figure 34, these two data series show a very close correlation, potentially reinforcing anecdotal evidence on the importance of cruise tourism income (e.g. 4x4 tours) for a large share of population at the lower end of the income scale.

Please note that Figure 34 is suggestive and not necessarily conclusive on the correlation between cruise tourism and income inequality. Another reason for the recent growth in income of the bottom 50% of income earners may as well be the introduction, in 2013, of a statutory minimum wage (please see Section 0).

Figure 34: Cruise tourism and income growth of bottom 50% of population



Source: FIG Taxation and [Falkland Islands Tourist Board](#); FIG DPED analysis

Based on the evidence discussed above, a possible explanation of the impact of the two identified factors (dividends distributed to resident shareholders; and growth in the average income earned by the bottom 50% of income earners – in turn possibly driven by tourism income) on the level of income inequality could be summarized as follows.

- Between 2008 and 2012, decreasing levels of income earned by the bottom 50% of income earners, and increasing dividends distributed to shareholders, were associated with growing income inequality.
- Between 2012 and 2015, increasing levels of income earned by the bottom 50% and a stable level of dividends were associated with a decrease in income inequality.
- Between 2015 and 2019, income earned by the bottom 50% continued to rise, however the concomitant sharp rise in dividends more than offset this first driving factor and pushed up income inequality.

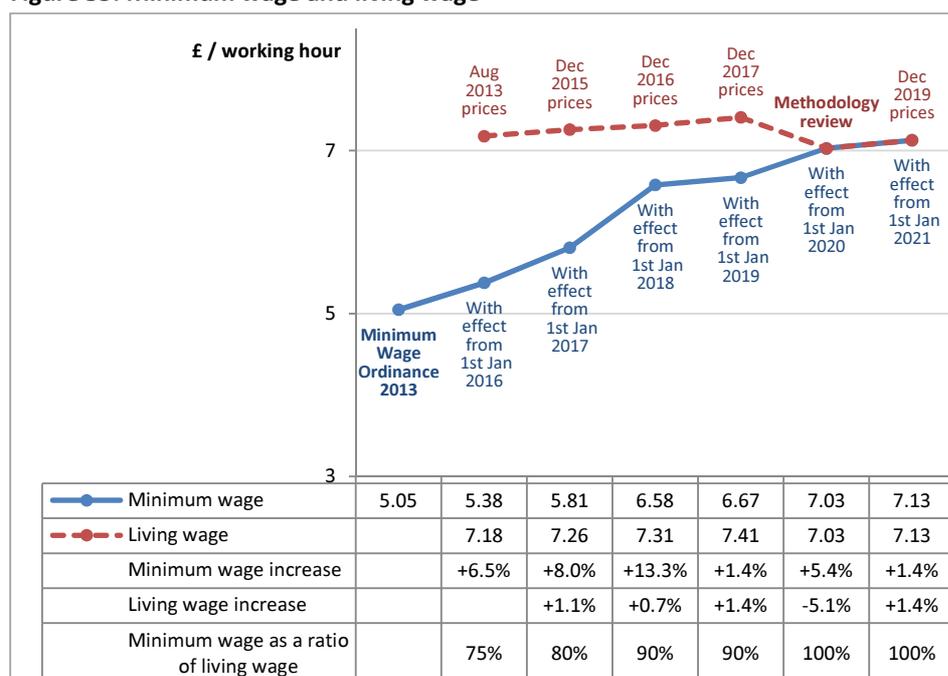
2.2.4. Minimum wage and living wage

A statutory **minimum wage** for all workers aged 16 or over was first introduced in the Falkland Islands with the Minimum Wage Ordinance (2013), which set the minimum wage at £5.05 per working hour.

The concept of '**living wage**' refers to the income that people feel they need to earn in order to obtain a minimum socially acceptable standard of living. Unlike the minimum wage, which is a legally enforceable minimum level of pay, the living wage is an informal benchmark only.

Figure 35 shows how the Falkland Islands minimum wage and living wage have evolved in recent years.

Figure 35: Minimum wage and living wage



Source: Falkland Islands Budget Books; FIG DPED analysis

A living wage estimate was first introduced with the publication of the report 'A Living Wage for the Falkland Islands' (2015), based on the results of a survey carried out in 2013. In that report, the Falkland Islands living wage was estimated at £7.18 per hour; living wage estimates have subsequently been updated on an annual basis to adjust for changes in prices.

In 2019 the FIG Directorate of Policy and Economic Development undertook a thorough review of the methodology used to calculate the living wage in 2015 and in subsequent updates. Based on the methodological changes and new assumptions adopted, the blended hourly living wage was estimated at £7.03 per hour, down from the previous estimate (Dec 2017 prices) of £7.41 per hour. In the following Budget round, the Falkland Islands minimum wage was brought in line with the new estimates of the living wage.

The minimum wage is currently set at 100% of the last living wage estimate, i.e. £7.13 per working hour.

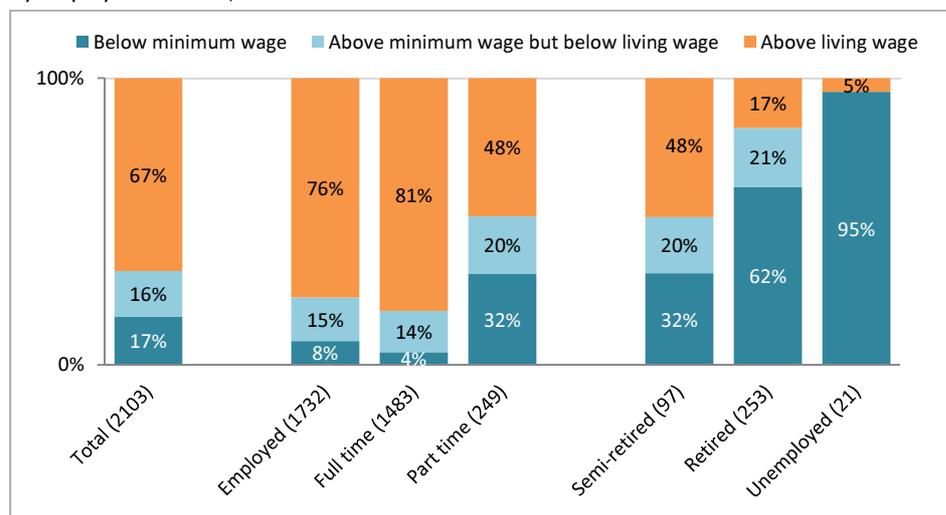
2.2.5. Low-income population

While both the minimum wage and living wage concepts refer to income levels of people in employment, they can be used as thresholds to calculate what percentage of the population (thus including young people, retirees, and the unemployed in addition to people in employment) lives below a certain income level. Figure 36 shows, at the time of the last Census (2016), the percentage of population living: below minimum wage; above minimum wage but below living wage; and above living wage. Overall, 33% of population lived below living wage – of which 17% lived below minimum wage.²⁸

→ International benchmarking box on 'Low paid employees' at p. 43

Figure 36: Share of population earning below minimum and living wage

By employment status, 2016

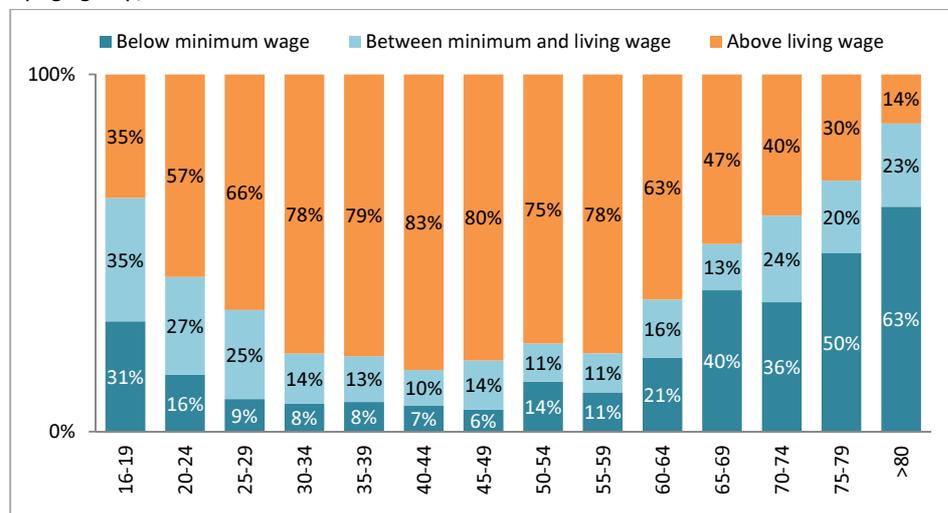


Data in brackets refer to the number of individuals in each group. Source: Census 2016; FIG DPED analysis

²⁸ Please note that the data refer to individuals. The picture in terms of households may be different, as individuals earning below the living wage or minimum wage thresholds could be supported by other members of their household. This has been taken into account, as far as possible, by excluding those individuals classified in the Census as 'Not working for other reasons', which probably refer to young people or other members of single-income households who are not looking for work. Also, the data refer to annual income only. In many cases (e.g. among retirees) such income could be supplemented by the wealth accumulated during the years of work.

Figure 37 shows the same data broken down by age group. People below 20 years old and above 65 years old are more likely to earn below living wage than people of working age.

Figure 37: Share of population earning below minimum and living wage
By age group, 2016



Source: Census 2016; FIG DPED analysis

International benchmarking Low paid employees

According to the report 'Low Pay Britain 2019' (Resolution Foundation, May 2019), in 2016 the percentage of UK employees earning below the living wage threshold was 24%, while those earning the minimum wage (or less) were 7% of the total. This compares with, respectively, 23% and 8% in the Falkland Islands (see column "Employed" in Figure 36).

Table 3: Proportion of employees below selected low pay thresholds, 2016

| | UK | Falkland Islands |
|------------------------------|-----|------------------|
| Below the living wage | 24% | 23% |
| At or below the minimum wage | 7% | 8% |

Source: Census 2016 and [Resolution Foundation](#); FIG DPED analysis

The Resolution Foundation report notes that, following an increase in the minimum wage in 2016 (£6.70 to £7.20), the share of 'low paid employees' (i.e. those earning less than two thirds of median hourly pay) fell from 21% to 17% – the first sustained fall in low pay in over four decades.

In the Falkland Islands, those earning less than two thirds of median hourly pay were around one quarter of the total at the time of the last Census (2016). That year, the minimum wage was 75% of the living wage.

Since, in the meantime, the minimum wage has been raised to 100% of the living wage, it would be interesting to see if the next Census will record a similar phenomenon to that observed in the UK (namely a reduction in the quota of 'low paid employees').

2.3. Retail prices

The only measure of inflation that is monitored in the Falkland Islands is the

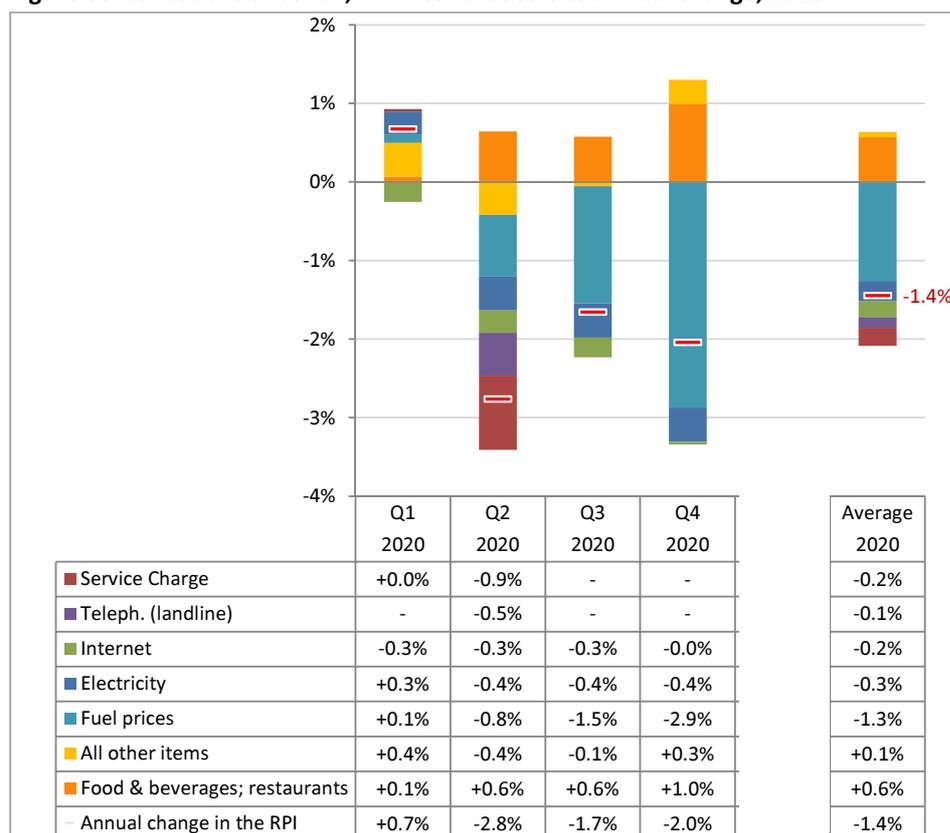
Stanley Retail Price Index (RPI), based on a basket of 175 goods which aims to represent the consumption patterns of goods and services of the Stanley population.

On average, the RPI has decreased by 1.4% in 2020. Very low fuel prices at the international level exerted a strong deflationary pressure on the RPI. Fuel items²⁹ and electricity (whose price largely depends on fuel prices) decreased by 12% in 2020, contributing -1.5 percentage points to overall inflation.

Is the Stanley RPI a measure of the cost of living in Stanley?
See Box 14

To what extent do changes in international oil prices have an impact on prices in Stanley?
See Box 16

Figure 38: Falkland Islands RPI, main contributors to annual change, 2020



Source: Stanley Retail Prices Index; FIG DPED analysis

Other items that had a deflationary impact on the price index include:

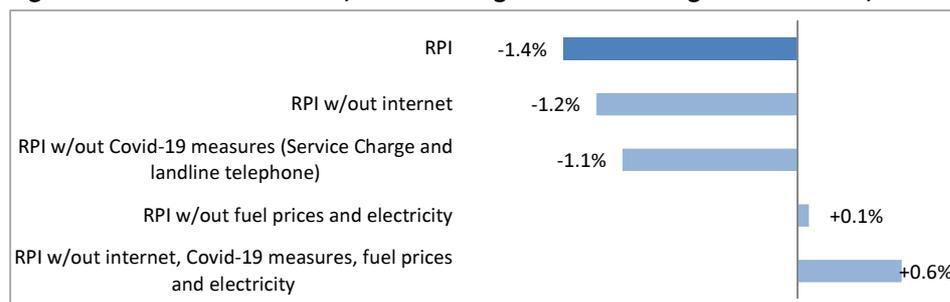
- d. Service Charge – whose price has decreased by 24% in 2020, contributing -0.2 percentage points to overall inflation;
- e. internet – whose price has decreased by 36% in 2020, contributing -0.2 percentage points to overall inflation;
- f. landline telephone calls – whose price has decreased by 6% in 2020, contributing -0.1 percentage points to overall inflation.

Why did the prices of Service Charge, internet, and landline telephone calls decrease in 2020?
See Box 15

When all items listed above are excluded from the basket of goods, the average annual change in the RPI is +0.6% (see Figure 39). This growth is almost entirely due to rising prices in food and beverages as well as restaurant services. The price of all the other articles has been relatively stable (+0.1 percentage points on average in 2020).

²⁹ Heating fuel (kerosene) and diesel fuel.

Figure 39: Falkland Islands RPI, annual change when excluding selected items, 2020



Source: Stanley Retail Price Index; FIG DPED analysis

Box 14. Is the Stanley RPI a measure of the cost of living in Stanley?

The Stanley Retail Price Index (RPI) can only be taken as an approximate measure of changes in the cost of living in Stanley. That’s because the RPI is actually a *cost of goods index*, not a *cost of living index*.

A cost of living index measures changes in the cost to households of maintaining a given standard of living, allowing for changes in consumption patterns following price changes (i.e. if the price of a good falls, households would often increase their consumption of that good).

A cost of goods index measures changes in the price of a fixed basket of goods of constant quality. It does not take into account any changes in consumption patterns that may arise from changes in prices.

There are some attractions to a cost of living index, which would more closely track the economic circumstances faced by households and how their utility is affected by price changes, but they are extremely difficult to implement in practice, and in particular involve an unacceptable lag before publication.

While cost of living indices are calculated by some statistical agencies, headline inflation indices are overwhelmingly calculated as cost of goods indices, such as the RPI and the Consumer Price Index (CPI).

→ **International benchmarking box on ‘Inflation – a comparison with the UK’ at p. 47**

Box 15. Why did the prices of Service Charge, internet, and landline phone calls decrease in 2020?

Service Charge The price decrease in utility service charges reflects the waiver of for a ninety-day period decided by the Government in April 2020 as part of its comprehensive Covid-19 Support Package³⁰. This impacted the RPI in Q2 2020 only as utility service charges were brought back to their previous level in July 2020.

→ continues on next page

³⁰ A decrease in the price of electricity was also decided by the Government in April 2020 as part of the same Covid-19 Support Package – though electricity is grouped together with fuel prices in Figure 39 as its price is directly linked to fuel prices (as shown by the fact that the price of electricity remained at lower levels than in 2019 even after the end of the ninety-day period originally envisaged by the Covid-19 Support Package).

Internet

In December 2019 Sure South Atlantic Ltd (the telecommunications company which operates in a regime of monopoly in the Falkland Islands) completely changed the names, data allowances, and prices of their broadband packages – doubling data allowances in all larger packages and, at the same time, increasing prices by 10% – resulting in a unit price decrease (in terms of £ per gigabyte) across their offering. An increase in data allowance means an increase in the quality of the service provided, and thus results in a deflationary pressure on the RPI (which measures the change in prices of a basket of goods of constant quality).

Also, starting from 1st April 2020, Sure South Atlantic Ltd implemented a number of temporary measures, (initially for a period of three months) in response to the Covid-19 crisis, including a free-of-charge 10% increase to broadband data allowances applied to all packages.

Landline telephone calls

The measures implemented by Sure South Atlantic Ltd starting from 1st April 2020 included a 50% reduction in local-landline-to-local-landline calling charges (from 6p per minute to 3p per minute) for a period of three months. This impacted the RPI in Q2 2020 only.

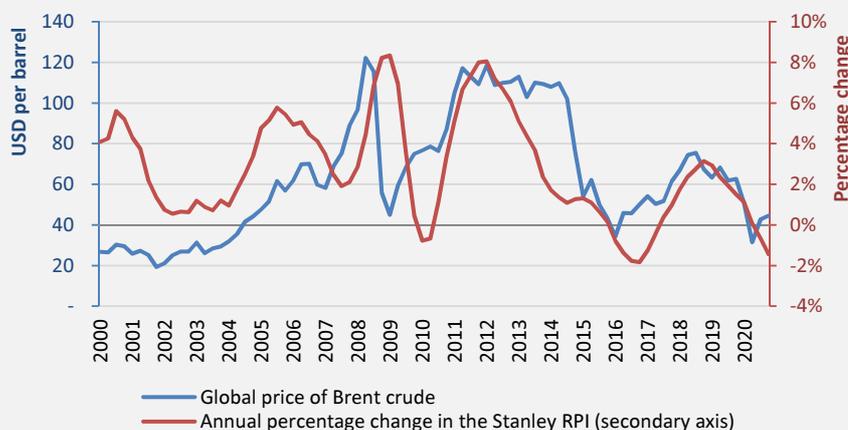
Box 16. To what extent do changes in international oil prices have an impact on prices in Stanley?

Inflation in the Falkland Islands, as recorded by the Stanley RPI, seems to significantly correlate with international oil prices (see Figure 40).

There are two main reasons for this:

- a direct impact on kerosene and diesel prices – which together account for around 9% of the basket – as well as on the price of electricity, a large percentage of which is produced from combustion of diesel fuel;
- an indirect impact on the price of goods imported – which depend on transport costs – which in turn depend on oil prices.

Figure 40: Global price of Brent crude and change in the Stanley RPI

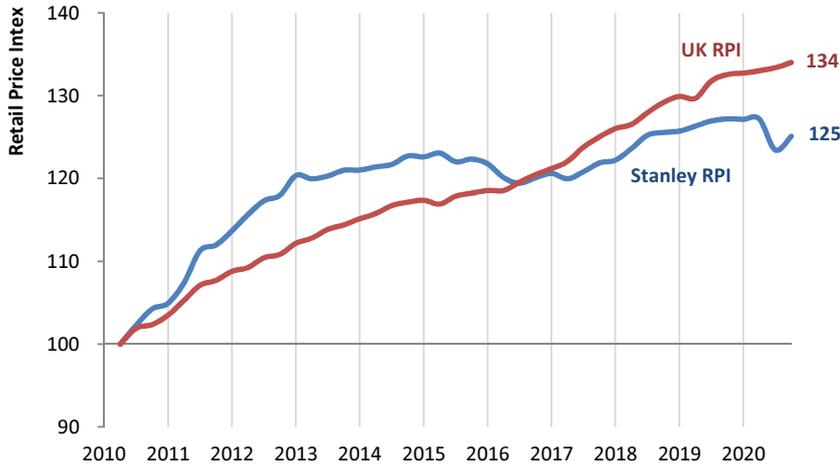


Source: [Federal Reserve Bank of St. Louis](#) and Stanley Retail Prices Index; FIG DPED analysis

International benchmarking Inflation – a comparison with the UK

In the last decade, retail prices in Stanley have tended to be more volatile than in the UK (see Figure 41). Inflation has been higher than in the UK in 2010, 2011, and 2012, but lower since then. At the end of 2020, retail prices were, on average, 25% higher in the Falkland Islands and 34% higher in the UK than in early 2010.

Figure 41: Falkland Islands and UK retail price indices, 2010-2020

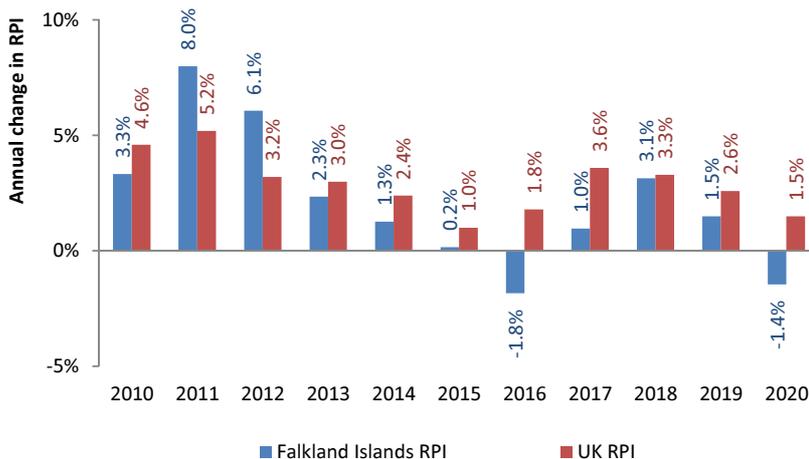


Source: Stanley Retail Prices Index and [UK Office for National Statistics](#); FIG DPED analysis

Figure 42 shows annual changes in the Falkland Islands and UK retail price indices between 2010 and 2020. Inflation in the Falklands seems to be correlated with inflation in the UK, although on several occasions price changes in the Falklands have been much larger.

Inflation in the Falkland Islands can be strongly influenced by changes in the price of certain goods and services, such as fuel (see Box 16) and internet.

Figure 42: Falkland Islands and UK retail price indices, annual changes



Source: Stanley Retail Prices Index and [UK Office for National Statistics](#); FIG DPED analysis

2.4. Government

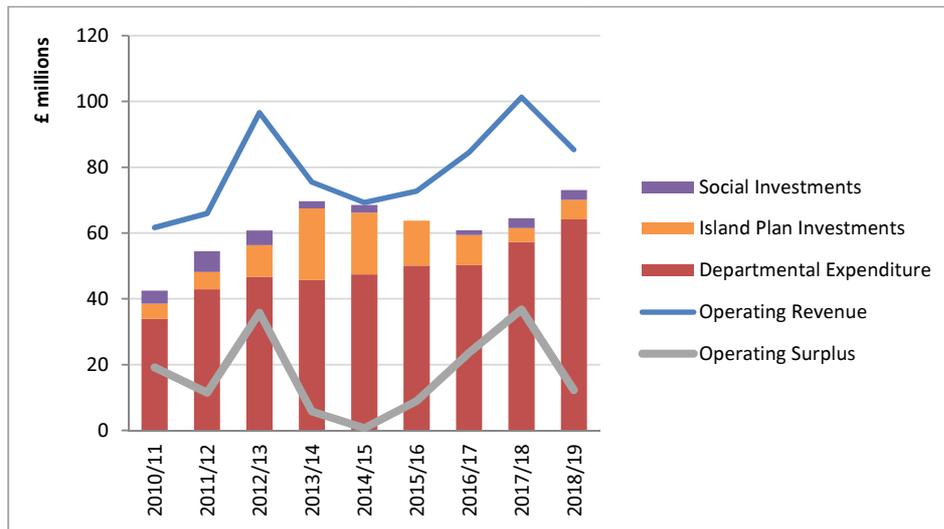
The Falkland Islands has a strong economy, which not only provides a high standard of living for its residents, but also allows the Falkland Islands Government (FIG) to provide a wide range of public services.

Figure 43 shows how government revenues³¹ and government expenditure – and the resulting public sector balance – have changed between 2010/11 and 2018/19. Both government revenues and expenditure have increased over this period (at a compound annual growth rate of +4.1% and +7.0% respectively).

Government revenues have consistently exceeded government expenditure over this period, thus generating significant surpluses, equal to £17m on average between 2010/11 and 2018/19 (or 8.8% of GDP on average between 2011 and 2018).

→ International benchmarking box on 'Government expenditure' at p. 49

Figure 43: Government revenues, expenditure, and public balance



Source: Falkland Islands Budget Books; FIG DPED analysis

Figure 44 breaks down government revenues by source. Fishing licence fees and corporation tax are generally the two major sources of revenues, accounting, on average, for 27% and 21% of total revenues respectively between 2010/11 and 2018/19.

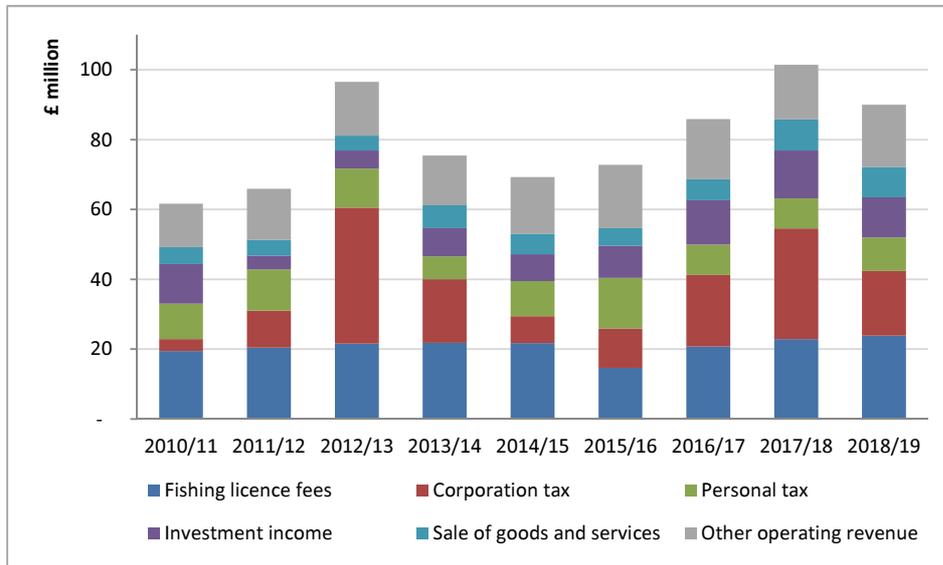
Revenue from corporation tax has been highly volatile in recent years, being dependent on the level of economic activity in a given year. Licence fee income can also be volatile, due to variations in the *illex* catch.

³¹ Government revenue breaks down into:

- departmental expenditure;
- Island Plan investments, which in turn include:
 - subventions paid to government-funded agencies and institutions such as the Falkland Islands Museum and National Trust, the Falkland Islands Development Corporation, the Falkland Islands Tourist Board, the Falkland Islands Meat Company, etc.;
 - self-determination related expenses, e.g. expenditure into media relations and public diplomacy;
 - infrastructure, transport and communication investments;
 - social and community development (e.g. the Holiday Credit Scheme).
- social investments, e.g. expenditure related to the Retirement Pensions Fund.

Personal tax and investment income also contribute significantly to government revenues (respectively, 13% and 12% on average between 2010/11 and 2018/19). Income from sales of goods and services (8% on average between 2010/11 and 2018/19) reflects goods and services sold by FIG, such as electricity and quarry products.

Figure 44: Government revenues, 2010/11 to 2018/19



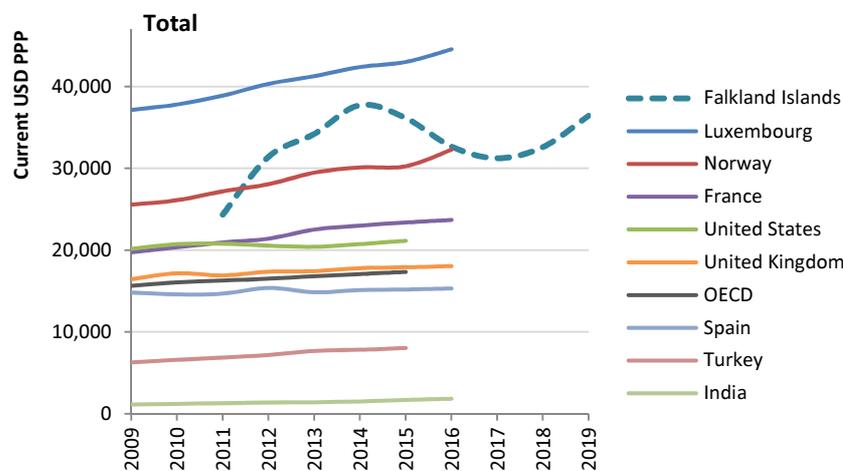
Source: Falkland Islands Budget Books; FIG DPED analysis

International benchmarking Government expenditure

Figure 45 puts public spending in the Falkland Islands in an international perspective, in terms of government expenditure per capita and in purchasing power parity.

Government expenditure per capita was ca. \$34k on average between 2014/15 and 2018/19, a level in line with northern European countries such as Norway and Luxembourg, and significantly higher than the UK or OECD averages (respectively, \$18k in 2016 and \$17k in 2015).

Figure 45: Government expenditure per capita current USD PPP)



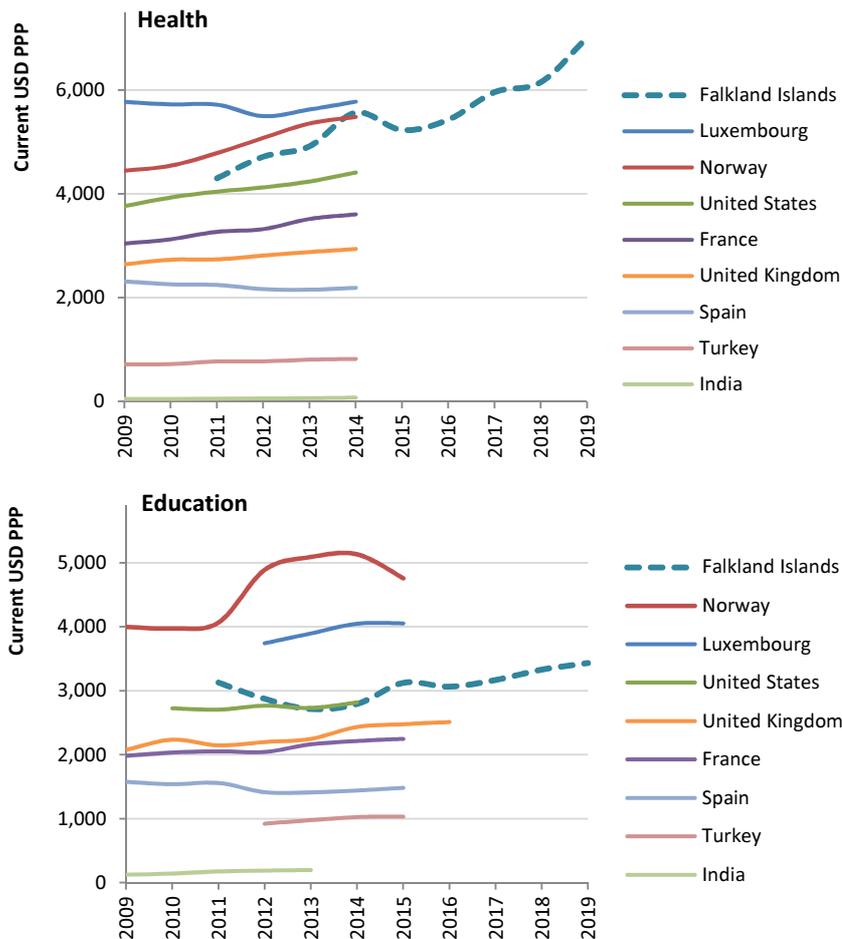
Source: FIG Budget Books and ourworldindata.org; FIG DPED analysis

→ continues on next page

However, government expenditure as a percentage of GDP is lower in the Falkland Islands (25% on average between 2015/16 and 2017/18) than in the UK (37% in 2016), in the UE on average (37% in 2016), and in OECD countries on average (28% in 2015) (source: the World Bank).

Health and education are important public goods provided by the government for the benefit of the public. As shown in Figure 46, on average between 2011/12 and 2013/14, public expenditure per capita on health was ca. 75% higher in the Falkland Islands than in the UK; while public expenditure per capita on education was ca. 30% higher (2013/14-2015/16).

Figure 46: Public expenditure in health and education per capita



Source: FIG Budget Books and ourworldindata.org; FIG DPED analysis

As discussed in Section 2.2, as the level of per capita public spending in areas such as health and education is higher in the Falkland Islands than in most other high-income countries, it follows that *social inequality* is likely to be lower in the Falkland Islands than in countries with comparable levels of *income inequality*.

Figure 45 and Figure 46 show data in current terms. When adjusted for inflation, the data show that, between 2010/11 and 2018/19: total government expenditure per capita increased by 2.3% per year; public expenditure per capita in health increased by 3.4% per year; while public expenditure per capita in education decreased by 0.9% per year.

3. Trade and key export-oriented industries

3.1. Balance of trade

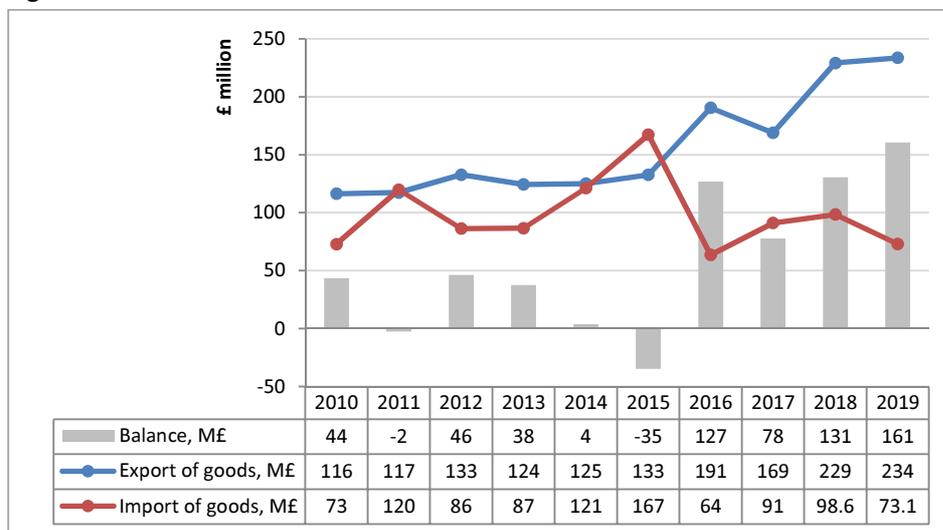
Figure 47 shows how the Falkland Islands' exports and imports of goods have moved over the last decade, as well as the resulting balance of trade.

Between 2010 and 2019, goods exported by the Falkland Islands grew at a compound annual growth rate (CAGR) of 8.1%. In 2019, exports of goods amounted to £234m, up from £229m in 2018 (+2.2%).

Over the same time period, the import of goods has been much more volatile, with peaks in imports associated with the 2010-12 and 2015-16 oil and gas exploration campaigns.

→ **International benchmarking box** on 'Openness to trade' at p. 52

Figure 47: Falkland Islands balance of trade



Source: [United Nations Comtrade](#); FIG DPED analysis

The balance of trade has been positive in all years between 2009 and 2018, with the exception of 2011 and 2015 (respectively, -£2.4m and -£34.7m).

Record positive trade balances (i.e. trade surpluses) have been recorded in 2016 (£127m, or 45% of GDP), 2017 (£78m, or 35% of GDP), 2018 (£131m, or 51% of GDP), and 2019 (£161m).

In recent years, large trade surpluses have ensured a high level of well-being and solid fiscal revenues – although for an economy to rely on few export commodities also means being vulnerable to world market prices.

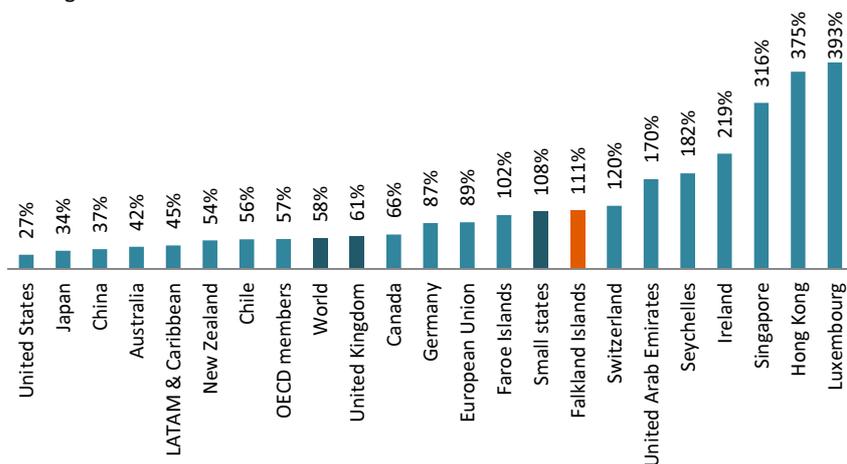
Why is it important to run a positive trade balance? See Box 17

International benchmarking Openness to trade

Trade (i.e. the sum of exports and imports) was 111% of GDP in the Falkland Islands on average between 2016 and 2018: a very high level compared to the world average (58%), and the UK (61%) – although in line with the average of other small states (108%).

Figure 48: Trade as a percentage of GDP

Average of 2016-2018



Source: [United Nations Comtrade](#) and [the World Bank](#); FIG DPED analysis

3.1.1. Imports

Most goods consumed in the Falkland Islands are imported. According to the United Nations Comtrade Database, £73.1m worth of goods were imported by the Falkland Islands in 2019 (-26% on 2018). In 2016-2019, the major exporters to the Falkland Islands were the UK (62% of the total), Spain (20%), and Greece (7%).

The next table shows the major import categories of goods imported from the UK, Spain, and Greece, between 2016 and 2019.

Table 4: Import of goods: major import categories from the UK, Spain, and Greece

| United Kingdom | | Spain | | Greece | |
|--|-------------------------------|-------------------------------------|-------------------------------|-----------------|-------------------------------|
| Import category | % of total imports in 2016-19 | Import category | % of total imports in 2016-19 | Import category | % of total imports in 2016-19 |
| 1 Machinery and mechanical appliances | 20.1% | Ships | 67.8% | Oil | 100.0% |
| 2 Vehicles | 9.9% | Oil | 21.3% | | |
| 3 Iron or steel articles | 8.4% | Commodities not specified | 5.0% | | |
| 4 Electrical machinery and equipment (including audio and video accessories) | 8.2% | Machinery and mechanical appliances | 4.5% | | |
| 5 Plastics and articles thereof | 6.2% | | | | |

Source: [United Nations Comtrade](#); FIG DPED analysis

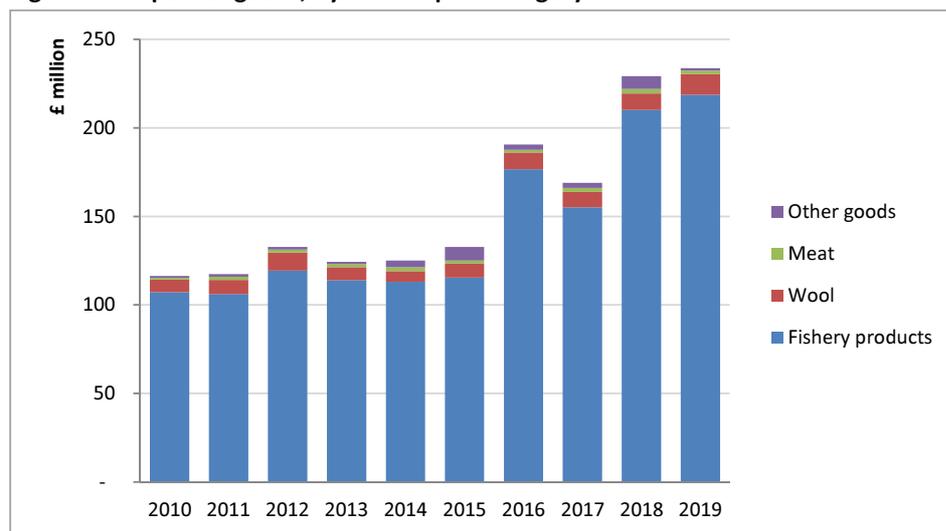
The Falkland Islands economy also imports a considerable amount of services. These include professional technical expertise, including engineering, construction management, and specialist health care, as well as services related to oil and gas exploration, transportation and fishing.

3.1.2. Exports

The Falkland Islands' main exports are fishery products, wool, and meat.

Fishery products are by far the largest exported good, on average accounting for 91% of all exports between 2010 and 2019 (or £144m per year). On average over the same period, exports of wool amounted to £8.6m per year (or 5.5% of all exports), and export of meat amounted to £1.9m per year (or 1.2% of all exports).

Figure 49: Export of goods, by main export category



Source: [United Nations Comtrade](#); FIG DPED analysis

Table 5 shows the first five trade partners for each of the three major export categories (fishery products, wool, and meat), on average over the last four years for which data is available (2016-2019).

Spain is the main export destination for fishery products (with 82% of the total), followed by the US of America (6%), and Namibia (5%). Bulgaria is the main export destination for wool (36%), followed by Czechia (28%), and Germany (16%). The UK is the main destination for meat exports (67%), followed by France (11%), and Spain (6%).

Over the considered time period, the EU27 (i.e. excluding the UK) has been the destination of 83% of fishery exports, 81% of wool exports, and 33% of meat exports.

Table 5: Export of goods: first five partners for each major export category

| | Fishery products | | Wool | | Meat | |
|---|------------------|---------------------------------|---------------|---------------------------------|---------------|---------------------------------|
| | Trade partner | % of total exports in 2016-2019 | Trade partner | % of total exports in 2016-2019 | Trade partner | % of total exports in 2016-2019 |
| 1 | Spain | 82.3% | Bulgaria | 36.0% | UK | 66.6% |
| 2 | US | 6.3% | Czechia | 27.6% | France | 10.5% |
| 3 | Namibia | 4.7% | Germany | 16.2% | Spain | 6.3% |
| 4 | Morocco | 1.7% | UK | 16.2% | Netherlands | 5.3% |
| 5 | Japan | 0.8% | Malaysia | 1.4% | Cyprus | 5.1% |

Source: [United Nations Comtrade](#); FIG DPED analysis

Potential trade implications of Brexit

The Falkland Islands enjoyed a special partnership with the EU since the UK entered the union in 1973. This partnership was formalised through the Overseas Association Decision (OAD), which sought to “promote economic development and social development of the Overseas Countries and Territories and establish close economic relations between them and the Community as a whole”. As a result of the OAD, the Falkland Islands benefited from tariff-free and quota-free access for fishery and meat products exported to the EU. The EU does not currently levy tariffs on wool imports, regardless of their country of origin.

As a demonstration of the importance to the Falkland Islands economy of the EU market, on average between 2016 and 2019, the EU27³² was the destination for 83% of the Falkland Islands’ exports of fishery products, as well as one third of meat products (see Table 6).

Table 6: Destination of Falkland Islands’ exports, average of 2016-2019

| | Fishery products | Meat | Wool |
|------------------|------------------|-------|-------|
| EU27 | 83.5% | 33.3% | 80.9% |
| UK | 0.1% | 66.6% | 16.2% |
| Non-EU countries | 16.5% | 0.1% | 2.9% |

Numbers may not add up due to rounding. Source: [United Nations Comtrade](#); FIG DPED analysis

On 23rd June 2016, 51.9% of citizens in the UK and Gibraltar voted in a referendum to leave the EU. Once the UK Parliament passed the EU (Notification of Withdrawal) Act 2017 (16th March 2017), the Prime Minister invoked Article 50 of the Lisbon Treaty on 29th March 2017, triggering the UK’s exit from the EU (also known as *Brexit*).

The UK ceased to be a member of the EU on 31 January 2020. The UK was able to reach a deal with the EU (i.e. the ‘EU-UK Trade and Cooperation Agreement’) before the end of the *Transition Period* (1 February 2020 – 31 December 2020). The deal, however, made no provision for the Falkland Islands and no other agreement was concluded regarding post-Brexit trading relationship with the EU. As a consequence, goods imported into the EU from the Falkland Islands are now subject to the EU’s Common External Tariff:

- fishery exports: tariffs range between 6% and 18%;
- meat exports: according to the WTO Agreement on Agriculture, meat exports into the EU are subject to WTO MFN tariffs of 12.8%, plus a fixed amount, on average, of €155.68 per 100kg, depending on the cut (corresponding to an overall levy of about 42%);
- wool exports continue to be exempt from import tariffs.

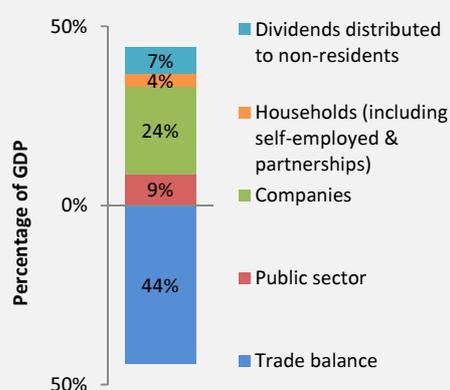
These costs, if not offset by factors pushing in the opposite direction (such as higher export prices), are likely to exert downward pressure on the profitability of exporting companies as well as government revenues.

³² The EU28 is the abbreviation of the European Union consisting of 28 countries (1st July 2013 – 31st January 2020). In the context of this report, the EU27 is defined as the EU28 with the exclusion of the UK.

Box 17. Why is it important to run a positive trade balance?

Figure 50: Sectoral financial balances

Average of 2016-2018



In the Falkland Islands case, running a positive trade balance is important because it is the necessary condition for *both* the public sector (i.e. the Falkland Islands Government) and the private sector (businesses and households) to run a positive balance (that is, a surplus, i.e. an increase in their savings).

A positive trade balance represents a net capital inflow into the Falkland Islands economy coming from the rest of the world.

Conversely, a positive balance held by FIG, the corporate sector, or households, represents a leakage out of the circular flow of income.

On average between 2016 and 2018, a trade surplus of 44% of GDP was converted – after accounting for dividends distributed to non-residents equalling 7% of GDP on average – into a FIG surplus of 9% of GDP, a corporate sector surplus of 24% of GDP (representing the average annual increase in the corporate sector’s net assets over this period), and household savings of 4% of GDP (representing a proportional increase in the aggregate wealth of households, self-employed and partnerships).

If the trade balance were not positive, only the following outcomes could be possible:

- a positive FIG balance (i.e. a government surplus) but a negative private sector balance (i.e. a reduction in the aggregate net wealth of Falkland Islands companies and households); or
- a positive private sector balance but a public deficit (dissaving in FIG reserves or public debt underwriting).

3.2. Agriculture

Sheep farming has been a traditional form of livelihood of the Islands since the 1850s. However, agriculture’s relative importance in the whole economy has been decreasing in recent years – more due to growth in the fishing industry rather than decline in agriculture *per se*.

Agriculture is the second largest employment sector in the Falklands, accounting for 9.7% of employment in 2016. The industry employed 210 people in 2016, down from 260 in 1991, a decrease of 19%.

3.2.1. Wool

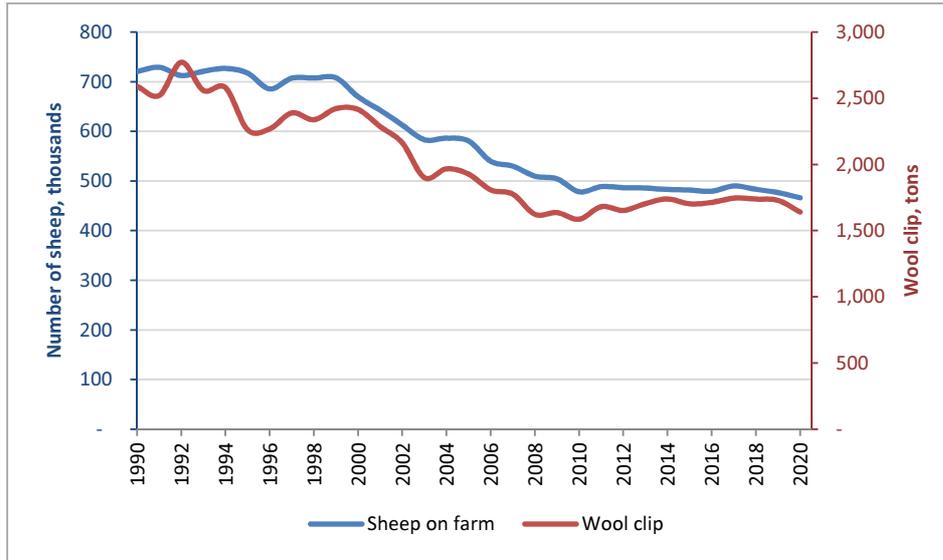
Wool remains the most important agricultural product for the Falkland Islands.

The number of sheep has declined 35% from the peak of 729k in 1991, falling to 466k in 2020, although numbers have remained fairly steady since 2010.

The wool clip has experienced a similar declining trend, with a clip of 1,642 tons in 2020, down from a maximum of 2,773 tons in 1992 – although numbers have increased 3% since 2010. Figure 51 shows trends in sheep numbers and wool clip since 1990.

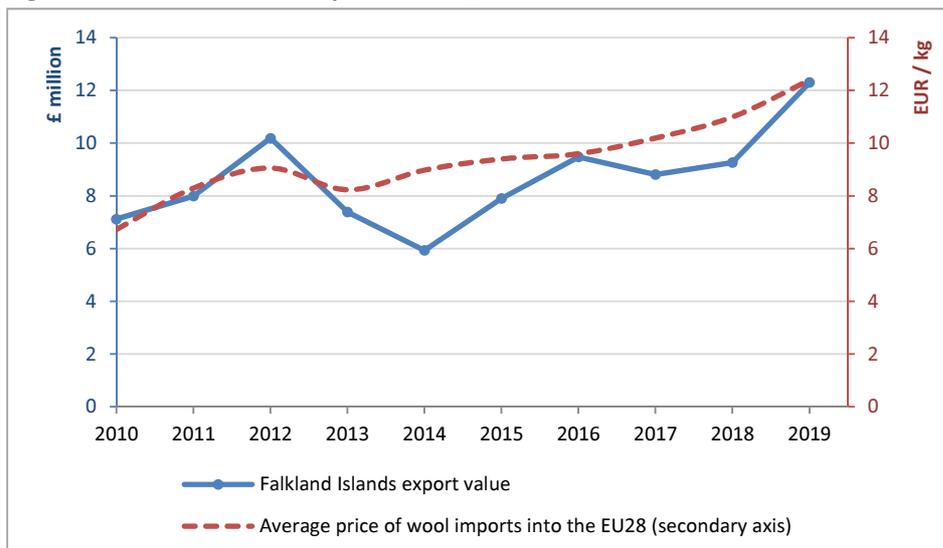
Government and industry have made significant efforts to reduce the micron of Falkland Islands wool, to obtain a better price on world markets. A recent report³³ commissioned by the Falkland Islands Development Corporation has suggested a number of other ways to add value to Falkland Islands wool.

Figure 51: Falkland Islands sheep numbers and wool clip, 1990-2020



Values do not refer to calendar years but to periods 1 June (of the previous year) to 30 May (e.g. 2020 refers to 01/06/2019 – 30/05/2020). Source: FIG Department of Agriculture, [Falkland Islands Farming Statistics](#); FIG DPED analysis

Figure 52: Falkland Islands export of wool, 2009-2019



Source: [United Nations Comtrade](#); FIG DPED analysis

³³ Value Adding Opportunities for Falkland Islands' Wool, Blake + Associates Consulting, 2017.

Export of wool was equal to £12.3m in 2019 (+32.3% on the previous year), making wool the second largest good exported from the Falkland Islands after fishery products.

Over the last ten years (2010-2019), the export value of wool has increased by 73%, at a compound annual growth rate (CAGR) of 6.3%, in line with the increase in the average price of wool imported into the EU over the same period (Figure 52).

3.2.2. Meat

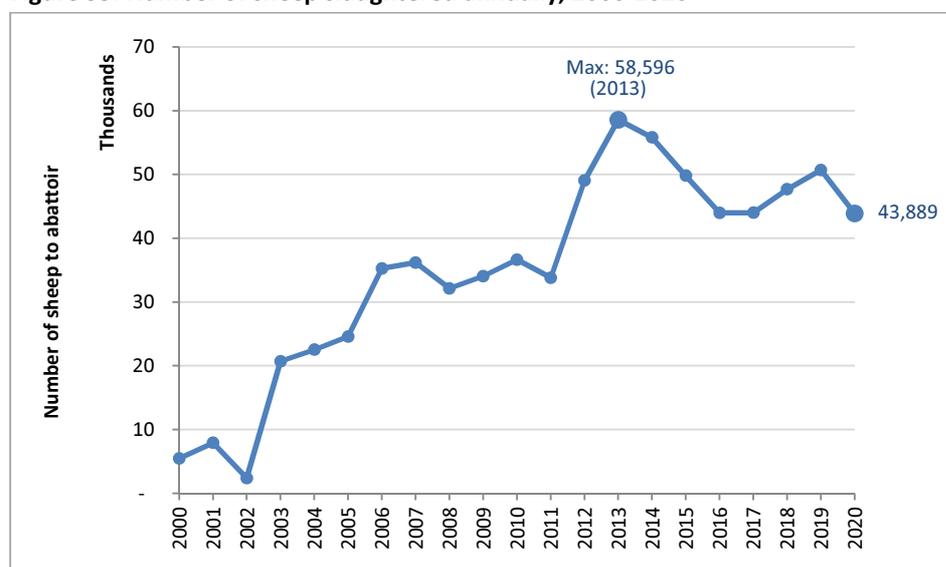
Large scale exports of lamb and mutton began after the establishment of the Falkland Islands Meat Company (FIMCo) in 2003. The number of sheep slaughtered peaked at 58,596 in 2013, before falling to 44,000 in 2016-2017 and then increasing again – reaching 50,720 in 2019 (see Figure 53).

Lamb and mutton exports were worth £1.9m in 2019, down from £2.6m in 2018 (-24%).

Over the last ten years (2010-2019), the value of Falkland Islands meat exports has increased by 84% (CAGR of 7.0%), mostly driven by a 55% increase in quantities exported, from 370 tons in 2010 to 572 tons in 2019, as well as higher average prices paid for frozen lamb and mutton imported into the EU (see Figure 54).

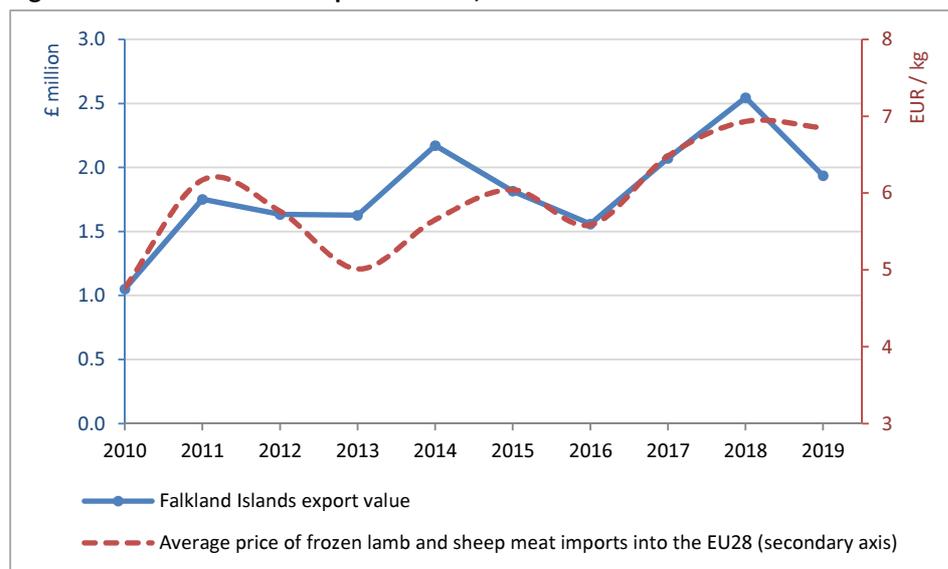
FIMCo also supplies lamb, mutton and beef to the domestic market.

Figure 53: Number of sheep slaughtered annually, 2000-2020



Values do not refer to calendar years but to periods 1 June (of the previous year) to 30 May (e.g. 2020 refers to 01/06/2019 – 30/05/2020). Source: FIG Department of Agriculture, [Falkland Islands Farming Statistics](#); FIG DPED analysis

Figure 54: Falkland Islands export of meat, 2010-2019



Source: [United Nations Comtrade](https://comtrade.un.org/); FIG DPED analysis

3.3. Fishing

The Falklands Interim Conservation Zone was established in 1986, giving the Falkland Islands control over its fishery. This area was expanded to include the Falklands Outer Conservation Zone in 1990.

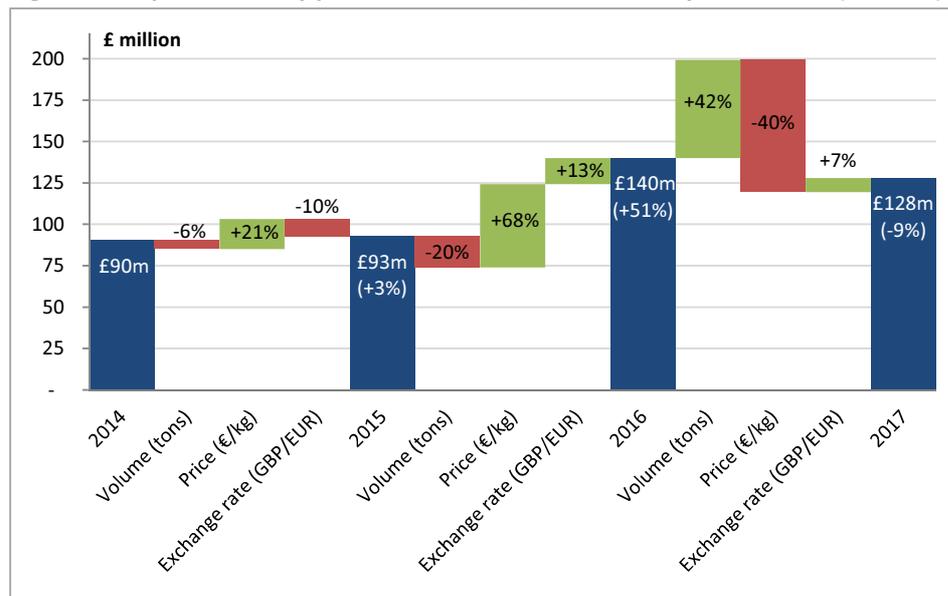
With the exception of the *illax* squid fishery, fishing in Falklands waters is controlled by a system of Individual Transferrable Quotas (ITQs), and is carried out by Falkland Islands resident companies acting either alone or in joint ventures with foreign (mainly Spanish) partners.

Fishing industry revenues are almost exclusively dependent on exports. Value of exports depends on a number of volatile variables, including fish catches, international fish prices, and exchange rates. Fish catches themselves are influenced by a complex range of factors, including climate, fishing pressure inside and outside Falkland Islands’ waters and interactions between species.

As an example of the interactions of these variables in the determination of value of export Figure 55 and Figure 56 show a disaggregation of the annual change in the value of Falkland Islands’ exports of fishery products to the EU, by change in volume (tons) exported, average sell price (€ per kg), and exchange rate (GBP/EUR).

Do changes in fishing industry revenues depend more on changes in catches, sale prices, or exchange rates? See Box 18

Figure 55: Export of fishery products to the EU, breakdown by main driver (2014-17)



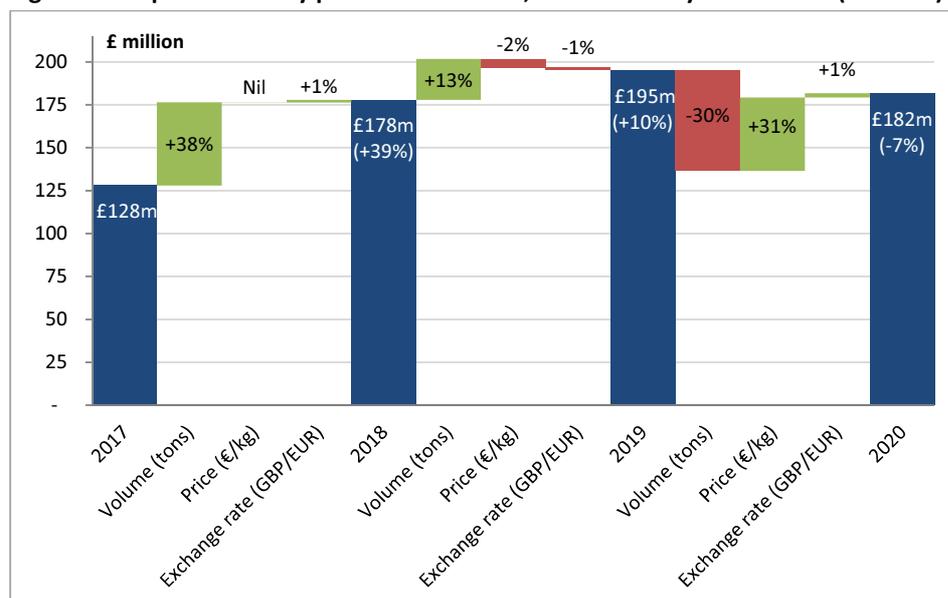
For example:

- in 2015, exports of fishery products to the EU were equal to £93m;
- in 2016, mostly driven by a significant increase in prices (+68%) offsetting a decrease in volumes exported (-20%), Falkland Island exports of fishery products to the EU (in £ million) increased by 51% to £140m;
- in 2017, mostly driven by a significant decrease in prices (-40%) offsetting an increase in volumes exported (+42%), Falkland Island exports of fishery products to the EU decreased by 9% to £128m.

Source: [DataComex](#); FIG DPED analysis

In 2020, due to lower levels of catch, volumes exported decreased by 30% (from 87k ton to 61k ton). However, this drop in volumes exported was almost entirely offset by a 31% increase in prices (from 2.6 €/kg to 3.4 €/kg). As a result, Falkland Island exports of fishery products to the EU decreased by 7% only compared to 2019.

Figure 56: Export of fishery products to the EU, breakdown by main driver (2017-20)



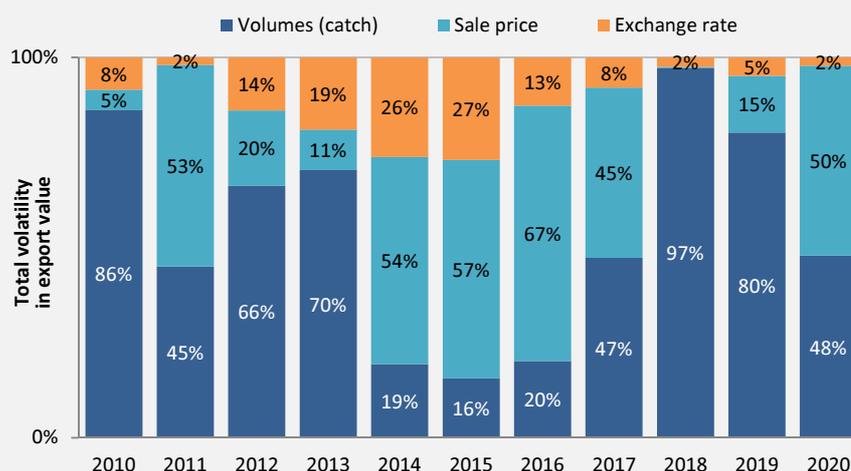
Source: [DataComex](#); FIG DPED analysis

Box 18. Do changes in fishing industry revenues depend more on changes in catches, sale prices, or exchange rates?

Over the last decade (2010-2020), price volatility and exchange rate volatility have been responsible, together, for 46% of changes in export value (respectively, 34% and 11%); while volatility in catches has been responsible for the remaining 54%.

As shown in Figure 57, these percentages vary over time.

Figure 57: Total export value volatility, breakdown by driver



Source: [DataComex](#); FIG DPED analysis

In 2018-2019 sale prices and exchange rates have been much less volatile than in 2014-2017, when they had a much higher impact on the value of exports and overall industry profitability. In 2014-17 price and exchange rate volatility were responsible, together, for 74% of total changes in export value (with the remaining 26% being volatility in catches), while in 2018-2019 their contribution to the overall change in export value went down to 11%.

Exports directed to the EU have been equal to 83% (in value, i.e. in terms of £ million) of all Falkland Islands exports of fishery products between 2015 and 2019 (last five years available), with Falkland Calamari (*Ioligo squid*) representing 93% of this trade flow.

The remaining 17% (exports to non-EU countries) mainly included export of Falkland Calamari (a significant share of which went to Namibia) and Toothfish (mostly going to the US).

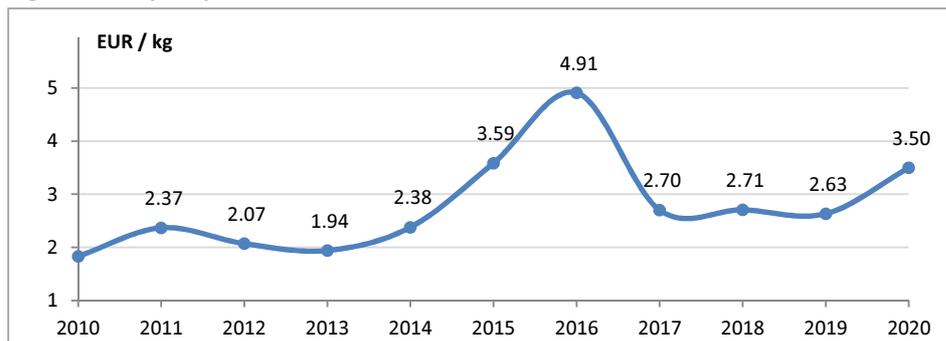
The following Figures show the sale price of Falkland Islands exports of Falkland Calamari between 2010 and 2020. Three distinct periods emerge from monthly data since 2016:

- a. May 2016 – February 2017: average sale price= 4.9 EUR/kg
- b. April 2017 – September 2019: average sale price= 2.6 EUR/kg
- c. October 2019 – December 2020: average sale price= 3.5 EUR/kg

The recent increase in Falkland Calamari sale prices, therefore, began before the start of the Covid-19 pandemic crisis.

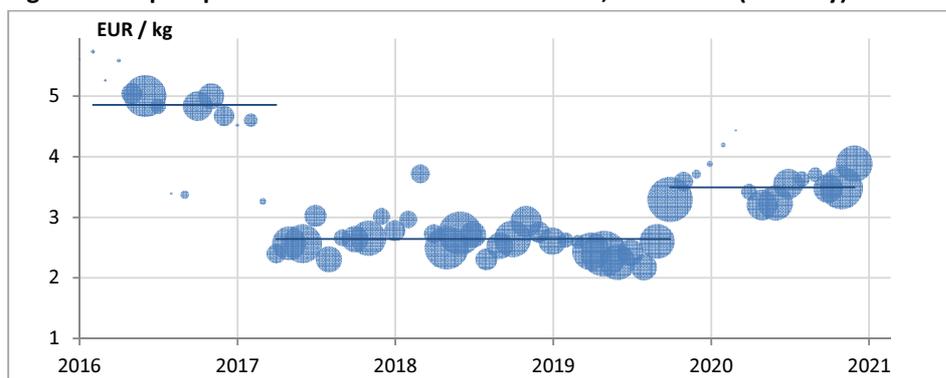
Are all fishery products fished in Falkland Islands waters classified as exports? See Box 19

Figure 58: Export price of *Falkland Calamari* in the EU, 2010-2020



Source: [DataComex](#); FIG DPED analysis

Figure 59: Export price of *Falkland Calamari* in the EU, 2016-2020 (monthly)



The size of the bubbles represents monthly export volumes (in tons). Source: [DataComex](#); FIG DPED analysis

Box 19. Are all fishery products fished in Falkland Islands waters classified as exports?

No. Only fishery products fished by Falkland Islands flagged vessels and sold in foreign markets are classified as an export from the Falkland Islands.

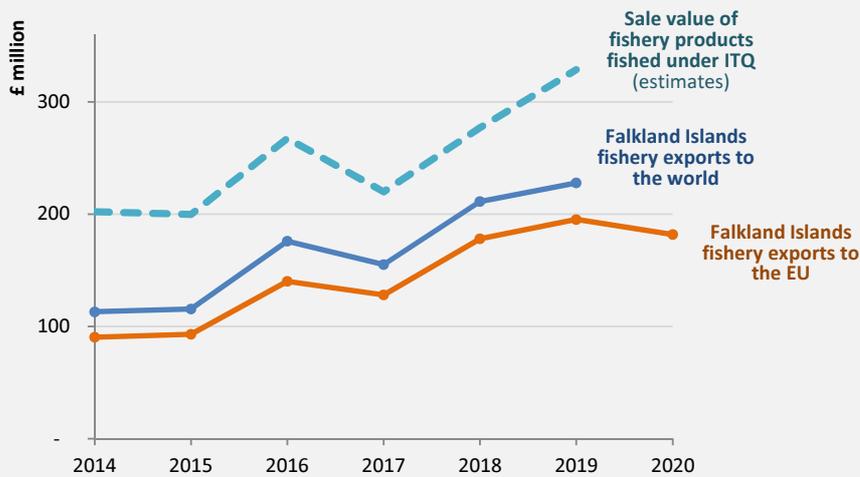
Information on fishery products fished by other vessels and sold abroad is impossible to detect from international trade databases. For example, fishery products fished by Spanish vessels and sold in Vigo, Spain, are not classified as a cross-border trade flow, while fishery products fished by the one British vessel operating in Falkland Islands waters and sold outside the UK are included in the broader UK cross-border trade flows and are thus impossible to isolate. However, sales abroad of fishery products fished by Falkland Islands flagged vessels (i.e. what is classified as an export) between 2014 and 2018 can be estimated at approx. two thirds of the total revenues of the Falkland Islands resident fishing sector (i.e. the sale value of all fishery products fished under ITQ) (please see Figure 60).

The remaining third is represented by revenues from overseas sales of fishery products fished by Spanish and British vessels. Even if they are not classified as an export from the Falkland Islands, these trade flows do contribute to the Falkland Islands GDP, as those vessels are operated by fishing companies which are resident in the Falkland Islands.

The only companies fishing in Falkland Islands waters which are not considered to be resident here (and thus do not contribute to generation of GDP) are those fishing for illex squid.

→ continues on next page

Figure 60: Falkland Islands fishery exports vs. total ITQ fishery sale value



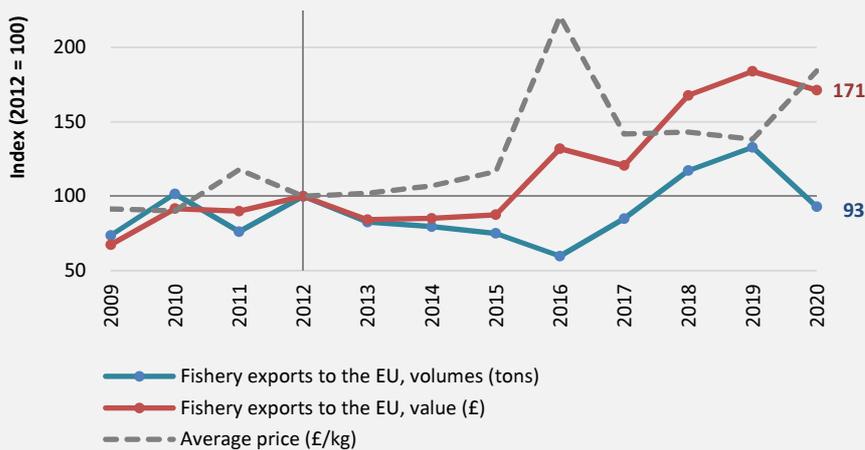
Source: [United Nations Comtrade](#) and [DataComex](#); FIG DPED estimates and analysis

Box 20. Why was there such a divergent trend in nominal and real GDP in 2016/2018?

The main – though not only – reason can be retraced to the surge in average sale prices of fishery exports that happened in 2016 (see Figure 61 for a focus on trends in export value, volumes, and average prices, for fishery exports to the EU). Although they dropped significantly in 2017-19, average prices remained high when compared to 2012, i.e. the base year against which GDP in constant prices is estimated.

As a result of higher prices, volumes (tons) of fishery products exported to the EU in 2020 were 93% compared to 2012 and 171% in terms of value (£).

Figure 61: Export of fishery products to the EU, 2009-2020



Source: [DataComex](#); FIG DPED analysis

Higher sale prices are reflected in the estimates of GDP in nominal terms but not in estimates of GDP in real terms, which are a measure of production as if goods and services produced every year had been sold at the base year's prices (i.e. 2012 prices).

Socio-economic benefits of the fishing sector

Fishing vessels are almost entirely crewed by non-residents of the Falkland Islands. However, there is some direct onshore employment within fishing companies, with 64 Falklands residents stating in the 2016 Census that their primary employment was in fishing.

Moreover, there are indirect benefits to the onshore economy through the goods and services fishing fleets acquire locally – including transportation, logistics, administrative services, fuel and provisions – supporting further economic activity and employment in these industries (see also Box 5 at p. 24).

Finally, fishing licence fees are typically the biggest single source of government revenues, and have generated between £10 and £30m per annum since they were first charged in 1987. Revenues from fishing licence fees were £23.7m in 2018/19 (or 27% of total FIG revenues in the same year). Resident fishing companies are also significant contributors to corporation tax revenue. The contribution of the Falkland Islands fisheries resources to government revenues is thus a key enabler of high and rising levels of public spending (see the *International benchmarking* box on ‘Government expenditure’).

→ *International benchmarking* box on ‘Government expenditure’ at p. 49

As well as earning revenues, FIG incurs costs in managing the fishery: expenditure on fisheries administration, fisheries protection/harbour control and the scientific budget combined came to £4.7m in 2018/19.

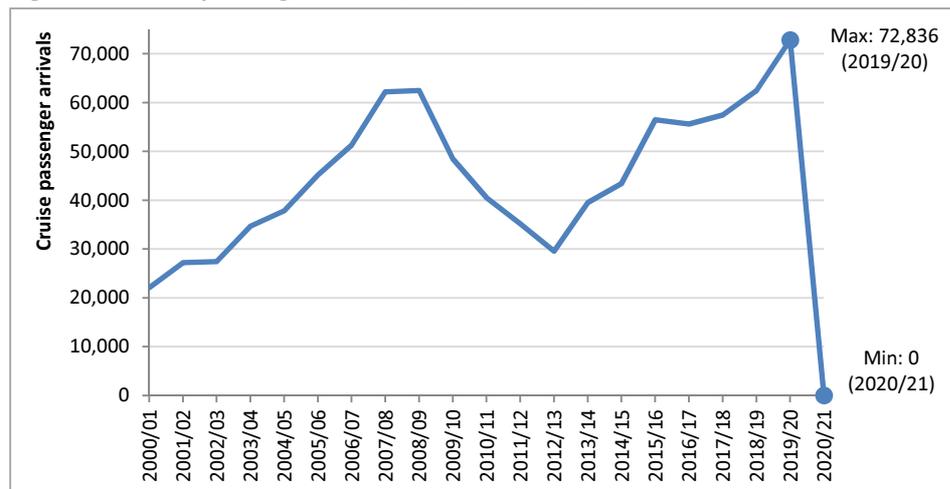
3.4. International tourism

The Falkland Islands have unique wildlife and a relatively untouched natural environment. These together with military history are points of interest that draw tourists to the Islands. The Falkland Islands receives visits from cruise ship passengers as well as land-based tourists.³⁴

As shown in Figure 62, the number of cruise passenger arrivals has grown from around 20,000 in the 2000/01 tourist season to 72,836 during the 2019/20 season, the largest number to ever visit the Falklands in a single season, representing an increase of 16.5% on the previous season. In the 2020/21 season there were no cruise visitors due to the Covid-19 pandemic.

³⁴ Tourism is a heterogeneous sector made up of businesses operating in many different categories, both in Stanley and Camp. Tourism-oriented businesses include hotels and restaurants, catered lodges, B&Bs, self-catering accommodation, pubs and cafes, tourist agencies, transport companies, car rentals and taxis, tour operators (e.g. 4X4 tours), tourism experience providers, and tourism-oriented retailers. Many tourism-oriented businesses (e.g. restaurants) provide goods and services not only to international tourists but also to the domestic market. Tourism is often a complementary source of income for businesses operating mainly in other sectors (e.g. farming).

Figure 62: Cruise passenger arrivals, 2000/01 – 2019/20

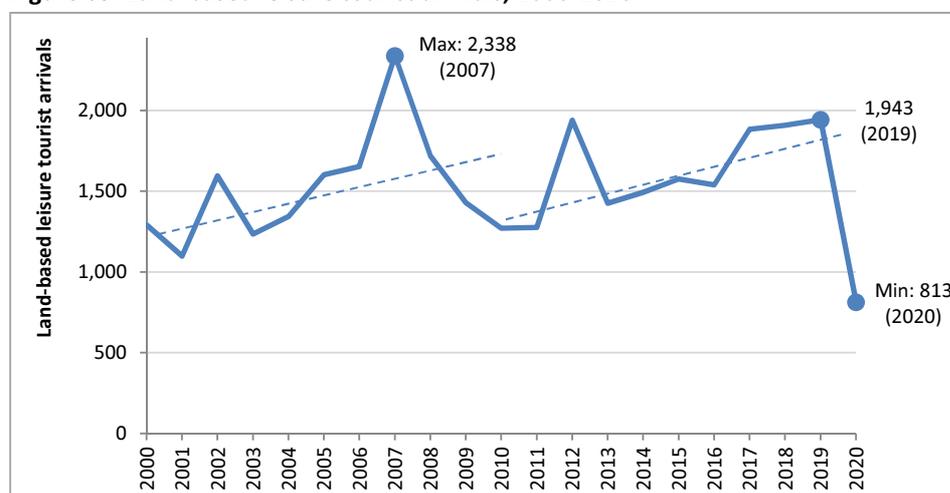


Source: Falkland Islands Tourist Board, [Tourism Statistics Report 2020](#)

In the 2019/20 season cruise visitors are estimated to have spent a total of £4.4m (+7.8% on the previous season)³⁵. Government income from passenger levies paid in respect of cruise passengers was £1.4m in 2018/19³⁶.

1,943 land-based leisure tourists visited the Falkland Islands in 2019 (+1.8% on the previous year), staying for an average of 11.2 days and spending a total of £4.8m (+12.7% on the previous year). As shown in Figure 63, the number of leisure tourists grew between 2000 and 2007, and again between 2010 and 2019, as the global economy recovered from the Global Financial Crisis. Some notable peaks coincide with significant anniversaries of the 1982 conflict.³⁷

Figure 63: Land-based leisure tourist arrivals, 2000-2020³⁸



Source: Falkland Islands Tourist Board, [Tourism Statistics Report 2020](#)

³⁵ Source: Falkland Islands Tourist Board, Tourism Quarterly Issue 20: Oct-Dec 2020.

³⁶ Source: FIG Budget Book 2020/21.

³⁷ It is noteworthy that the number of tourists grew in 2018 and 2019, even though these years followed the 35th anniversary of the conflict (2007).

³⁸ The number of land-based leisure tourists in 2020 (813) does include tourists that visited the Falkland Islands in January-March 2020 (i.e. pre Covid-19).

Table 7: The tourism sector in 2019

| Category | Number of tourists | Number of tourists (%) | Expenditure ³⁹ | Expenditure (%) |
|-----------------------------|--------------------|------------------------|---------------------------|-----------------|
| Expedition ships (<500 pax) | 16,931 | 21% | £1.0m | 5% |
| Cruise ships (>500 pax) | 55,905 | 69% | £3.7m | 24% |
| Land-based tourists | Leisure | 1,939 | £4.8m | 31% |
| | VFR | 1,897 | £1.1m | 7% |
| | Business & transit | 4,275 | £5.0m | 32% |
| Total | 80,947 | 100% | £15.5m | 100% |

Cruise tourism: 2019/20 data; land-based tourism: 2019 data.

Source: Falkland Islands Tourist Board; FIG DPED analysis

As shown in Table 7, in 2019 cruise tourism represented 90% of the total number of international visitors and 36% of tourist spend, while land-based tourism – including leisure, visiting friends and relatives (VFR), and business tourism, as well as transit visitors⁴⁰ – represented 10% of international tourist numbers and 64% of tourist spend.

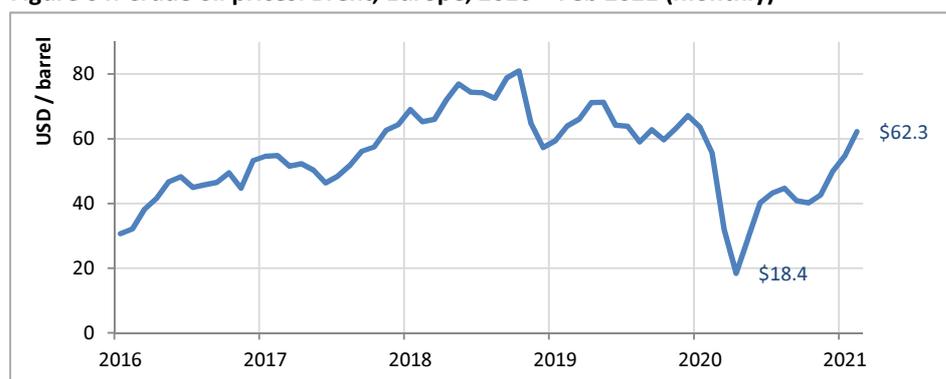
According to the Tourism Satellite Account 2018, produced by Acorn Consulting on behalf of the Falkland Islands Tourist Board, gross value added by the tourism industry was £5.5m in 2018 (or 6.5% of non-resource GDP), up from £3.8m in 2016 (+45%).⁴¹

Tourism is an important sector also in terms of employment. In the 2016 census, 89 people stated that their primary employment was in tourism (of whom 31 work part-time or are semi-retired), with a further 96 people saying that they had secondary employment in the industry.

3.5. Hydrocarbons

Hydrocarbon exploration has been taking place in Falkland Islands waters for some time, with major drilling campaigns occurring in 2010-2012 and 2015-2016. The decision of oil companies on whether to sanction production will be driven by expectations of future oil price, attractiveness of the specific project, investment climate and other factors.

Figure 64: Crude oil prices: Brent, Europe, 2016 – Feb 2021 (monthly)



Source: [FRED Federal Reserve Economic Data](https://fred.stlouisfed.org/), Federal Reserve Bank of St. Louis

³⁹ Excluding taxes and fees.

⁴⁰ Including e.g. passengers or researchers arriving by air to board a cruise ship or research vessel, and fishing crews.

⁴¹ Source: Acorn Consulting, Falkland Islands Tourism Board, Tourism Satellite Account 2016 and 2018

Exploration activity has provided a stimulus for the Falklands economy, as well as providing a contribution to government revenues. The economic impact of oil production, should it be sanctioned, would be much larger.

Potential socio-economic impacts of oil and gas development

The 'Socio-economic impacts of oil & gas development in the Falkland Islands' report (Falkland Islands Government, Directorate of Policy and Economic Development, October 2019) considered the potential effects of investment in the oil and gas sector on population and employment, public revenues, inflation and cost-of-living, labour force, other business sectors, and on social well-being.

Should the Sea Lion project be sanctioned, oil construction activity is expected to contribute to a temporary population surge. At the peak, expected approximately in years 2-4 of the Sea Lion campaign, there could be as many as 400 temporary workers involved in the construction of infrastructure. This could put a short-term strain on services including policing, customs and immigration, accommodation, and food supplies.

However, experience from previous exploration campaigns, as well as the economic growth seen over the last few years, suggests that the retail and business services sector can adapt quickly to increased demand. While there will be increased shipping and transportation activities associated with oil development, the industry will self-supply and use their own infrastructure (e.g. the Temporary Docking Facility), reducing strain on existing services.

While long term impacts from economic development are expected to be modest in terms of overall population growth, there is the potential for negative social consequences, both during peak employment years and in the steady-state, particularly if the Falkland Islands is unsuccessful in attracting permanent settlers.

With respect to potential economic and social impacts that could accompany the development of oil, the 'Socio-economic impacts of oil & gas development in the Falkland Islands' report concluded that the unique characteristics of the Falkland Islands economy will help to insulate the Falkland Islands from negative impacts that have been seen historically in other jurisdictions.

4. Business environment and competition

4.1. Business environment

4.1.1. Barriers to business growth

According to the 2018 FIDC's Business Climate Survey, the ten barriers to growth most frequently reported by business respondents were as detailed in Table 8.

Table 8: Top 10 barriers to business growth

| Rank (2018) | Change in rank from 2016 (no. of positions) | Barrier | % of respondents who cited it as a barrier (2018) | Change from 2016 (percentage points) |
|-------------|---|--|---|--------------------------------------|
| =1 | +4 | Air link to Chile (LAN) | 30.9% | +11.3 |
| =1 | +8 | Telecommunications – bandwidth (speed and quality) | 30.9% | +13.2 |
| 3 | -2 | Shortage of skilled labour | 29.6% | -2.8 |
| 4 | +5 | Telecommunications – cost | 27.2% | +9.6 |
| 5 | +10 | Air link to the UK (Airbridge) | 24.7% | +12.0 |
| 6 | -4 | Freight costs by sea – import | 19.8% | -1.9 |
| =7 | -3 | Distance to markets | 18.5% | -2.1 |
| =7 | +7 | Shortage of unskilled labour | 18.5% | +2.8 |
| =9 | +11 | Taxation | 17.3% | +8.5 |
| =9 | +19 | Telecommunications – package size | 17.3% | +11.4 |

Source: Falkland Islands Development Corporation, [Business Climate Survey 2018, Results Report](#)

The most significant barriers to business growth identified in the survey were 'Air link to Chile (LAN⁴²)' and 'Telecommunications – bandwidth (speed and quality)', with almost one third of respondents selecting each of these options.

Interestingly, among the top 10 barriers to growth, six relate to transport and communications. Commenting on these findings; FIDC noted "that this is not overly surprising considering the ongoing issues with "rotor winds" at MPC⁴³ and the knock-on effect it has had on LAN flights being delayed [...], alongside issues regarding capacity, cost and reliability of freight services relying on air links, and the renewed Telecommunications license, which had been felt by many in the private sector, to have been too heavily in favour of the provider and not the consumers".⁴⁴

'Shortage of skilled labour' as a barrier to business growth moved from first place in 2016 to third place in 2018, with 30% of respondents selecting this option. This has remained within the top five since the 2012 edition of the survey, suggesting that this has been an issue for many years and is ongoing.

As noted above, the unemployment rate in the Falklands is very low, and the economic activity rate is high. This means that it can be difficult to fill jobs with local workers – in 2016, 25% of jobs (looking only at an individual's primary

⁴² Now LATAM.

⁴³ Mount Pleasant Complex.

⁴⁴ Source: Falkland Islands Development Corporation, Business Climate Survey 2018.

employment) were held by work permit holders.⁴⁵ The difficulties businesses experience in meeting their labour force needs may be linked to their concerns with the immigration regulations and system.

Some other barriers, such as the small local market and the distance to other markets, are consequences of being a small and isolated community, which cannot easily be overcome, although steps may be taken to mitigate their impact on the economy.

Air links

As shown in Table 8, air links were among the most significant barriers to business growth identified in the 2018 FIDC's Business Climate Survey.

With the aim of enhancing air connectivity with South America (and from there with the rest of the world), a new weekly commercial air link connecting the Falkland Islands with São Paulo in Brazil was established in November 2019.

The new air link was suspended – together with the other LATAM air link connecting the Falkland Islands with Punta Arenas and Santiago in Chile – at the end of March 2020 due to the impact of Covid-19 restrictions on international air connectivity. Both air links remain suspended at the time of writing this report.

What kind of economic benefits are linked to increased air connectivity?
See Box 21

Figure 65: International air links (Dec 2019)



Source: [Falkland Islands Tourist Board](#)

⁴⁵ Source: Falkland Islands Census 2016 (report available [at this link](#))

Box 21. What kind of economic benefits are linked to increased air connectivity?

Strengthening international air connectivity is expected to bring a number of benefits to the economy of the Falkland Islands, as well as improving social well-being and quality of life.

Enhanced air connectivity means additional options for travel to the Falkland Islands; reduced travel times for some visitors; and greater flexibility with respect to the duration of the visit (and thus greater likelihood that the Falkland Islands are added to international tourism itineraries).

Additional tourist expenditure is expected to allow for increased revenues of tourism-related industries, as well as stimulating wider economic activity. This is due to greater intermediate demand on suppliers of tourism-related industries (and so on down the supply chain), as well as an increase in employment, household income, and spending in goods and services sought locally.

Increased air connectivity is likely to generate a number of further benefits. Most of these benefits are likely to occur in the medium to long term and that their full impact on economic growth and wellbeing will be observed in the longer term. These long term economic benefits could include:

- reduced costs for the oil industry, leading to increased likelihood of oil exploration/ production in the near term (which could generate increased revenues to FIG and to other Falkland Islands industries);
- reduced freight costs and improved capacity, reliability, and speed of cargo transport;
- increased opportunities for business development (including science and technology, and construction services) due to better, more frequent and more reliable connections;
- reduced employee recruitment and retention costs as more frequent connections may make it more viable to consider long term residence in the Falkland Islands;
- opportunities to further expand tourism by providing additional passenger capacity during peak tourist season, as well as the opportunity for shorter stays, thus improving the international reputation of the Falkland Islands as an accessible tourist destination;
- potentially, more competitive travel prices.

Further benefits will include: well-being and mental health benefits (as Falkland Islands residents will have more opportunities to go on holiday, more options for visits from family and friends, and more reliable options for emergency and medical trips); increased quantity and quality of services available to Falkland Islands residents due to increased customer base and improved business case; and enhanced opportunities for cultural exchange and awareness.

4.2. Competition

Many goods and services in the Falkland Islands are supplied by either a single supplier (monopoly) or a small number of suppliers (oligopoly). In many cases the supplier is FIG, or the service is provided under a contract between FIG and a single private sector supplier; while in other cases there is simply a sole provider due to the small marketplace

Natural monopoly conditions exist in several industries. Broadly, a natural monopoly will exist where suppliers experience economies of scale that are large relative to the size of the market. This has the consequence that costs are minimised if just one firm participates in the market, raising a barrier to entry for other firms. Natural monopolies often occur in industries where fixed costs are high relative to total costs, which is more likely to happen in small markets like the Falkland Islands.

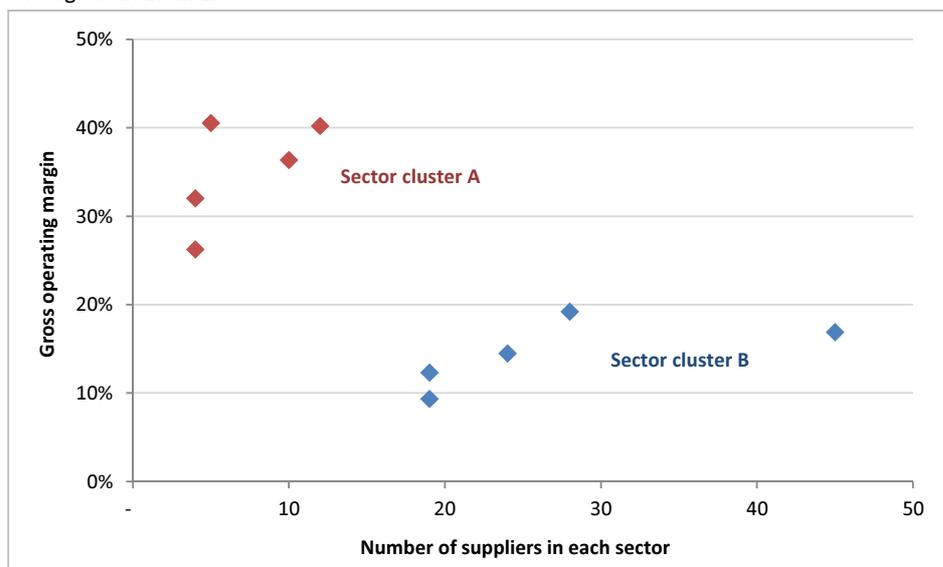
A monopoly provider may be able to take advantage of its position by setting prices significantly higher than near the marginal cost of providing the good or service, which is the price level that would be determined in a competitive environment. This would result in upward pressure on the cost of living and in the good or service being consumed at less than the socially efficient level.

The available data seem to confirm that this phenomenon occurs in the Falkland Islands: Figure 66 plots domestic-market-oriented private sectors by number of suppliers (either companies or self-employed businesses) on the X-axis, and aggregate gross operating margin across each sector on the Y-axis. The Figure shows that sectors where a higher number of suppliers allows for greater competition are characterised by a much lower profitability level than sectors where monopoly or oligopoly conditions seem to prevail.

→ International benchmarking box on 'Monopoly markets and profitability' at p. 71

Figure 66: Average profitability of (domestic-market-oriented) private sectors

Average of 2017-2018



- Sectors are not identified in the chart due to confidentiality reasons.
- Sectors which do not primarily supply the domestic market (e.g. export-oriented sectors such as agriculture, fishing, cruise-tourism-oriented tours) are excluded. Other sectors are excluded due to the zero or largely marginal weight of the private sector (e.g. public administration and defence; education).

Source: Falkland Islands National Accounts database; FIG DPED analysis

In the 2018-2022 Islands Plan, the Falkland Islands Government committed to reviewing the key monopoly industries in the Falklands to ensure that the regulatory environment results in the best outcomes for both consumers and suppliers of key products, including telecommunications and fuel.

International benchmarking Monopoly markets and profitability

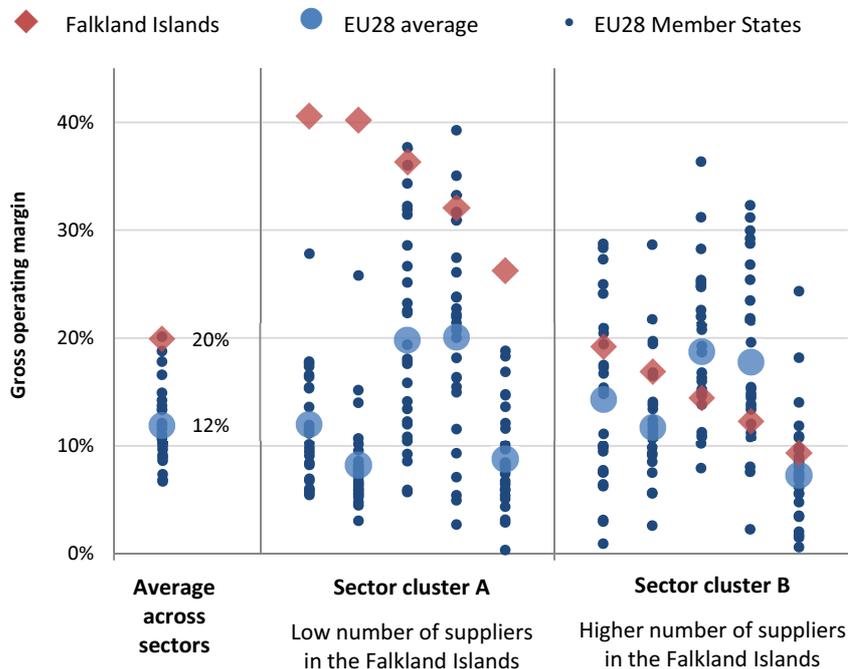
Figure 67 compares levels of profitability by sector (i.e. gross operating margin at the aggregate level for each domestic-market-oriented private sector) shown in Figure 66 with comparable data across EU countries.

The average gross operating margin in domestic-market-oriented sectors is ca. 20% in the Falkland Islands, higher than 12% in the EU. However, while in sectors grouped in 'sector cluster B' (the blue diamonds in Figure 66) profitability levels are similar to the EU average, in sectors grouped in 'sector cluster A' (the red diamonds in Figure 66), profitability levels are much higher than the EU average.

This suggests that a number of suppliers operating under monopoly conditions (or under oligopoly conditions, such as in markets where very few suppliers operate) in the Falkland Islands are able to exploit their position by fixing prices at a higher level than would prevail in a more competitive environment.

Figure 67: Profitability by sector and country

EU28 Member States: 2018 data; Falkland Islands: average of 2017-18



- Sectors are not identified in the chart due to confidentiality reasons.
- Sectors excluded in Figure 66 are also excluded here.

Source: Falkland Islands National Accounts database and [Eurostat](#); FIG DPED analysis

5. Economic impact of Covid-19

5.1. Global trends

The latest issue ([April 2021](#)) of the World Economic Outlook (WEO) published by the International Monetary Fund (IMF) describes an improved world economic outlook compared to previous releases. The main projections can be summarized as follows:

- After an estimated contraction of –3.3% in 2020, the global economy is projected to grow at 6.0% in 2021, moderating to 4.4% in 2022.
- The contraction for 2020 is 1.1 percentage points smaller than projected in the October 2020 World Economic Outlook, reflecting a higher-than-expected growth in the second half of the year for most regions after lock-downs were eased and as economies adapted to new ways of working.
- The projections for 2021 and 2022 are 0.8 percentage point and 0.2 percentage point stronger than in the October 2020 WEO, reflecting additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year.
- Thanks to unprecedented policy response, the Covid-19 recession is likely to leave smaller scars than the 2008 global financial crisis.

However, Gita Gopinath, Director of Research at the IMF, underlines in her Foreword to the April 2021 WEO that, “although medium-term losses for the global economy are expected to be smaller than in the aftermath of the global financial crisis, the cross-country pattern of damages is [...] likely to be different this time, with low-income countries and emerging markets suffering more compared to the fallout from the crisis a decade earlier when advanced economies were harder hit.”

“These divergences” – she adds – “are not just occurring between countries but also within them. [...] within-country income inequality will likely increase because young workers and those with relatively lower skills remain more heavily affected in not only advanced but also emerging markets and developing economies. In the latter group of countries, female employment rates remain below that of men, exacerbating these disparities.”

Moreover, “some of these effects reflect how the crisis has affected some sectors more than others”.⁴⁶

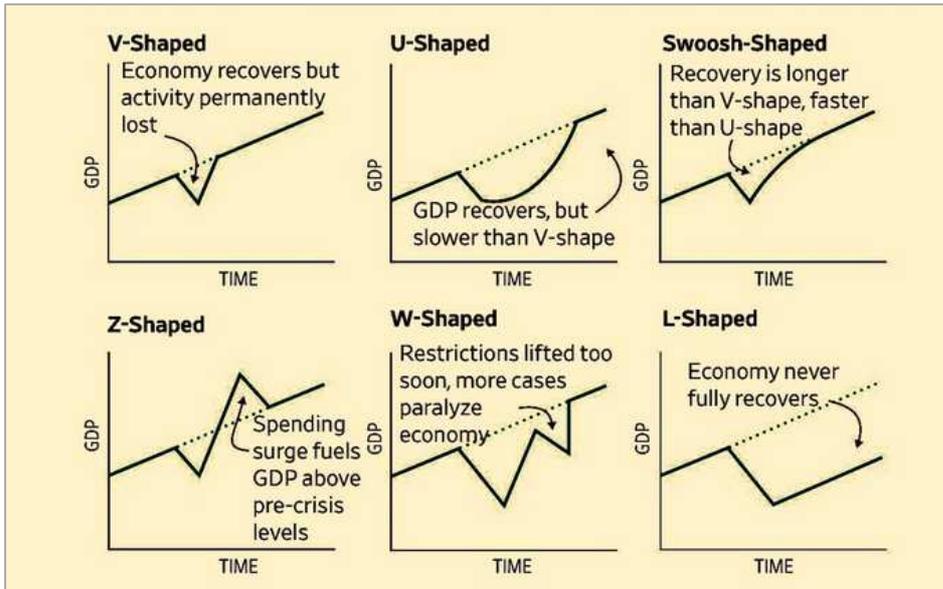
Finally, she makes the point that “a high degree of uncertainty surrounds [the IMF] projections, with many possible downside and upside risks. Much still depends on the race between the virus and vaccines. Greater progress with vaccinations can uplift the forecast, while new virus variants that evade vaccines can lead to a sharp downgrade.”

⁴⁶ This concept – that is, the prospect of a ‘K-shaped recovery’ ahead – is discussed in Section 5.1.1.

5.1.1. A 'K-shaped' recovery

Recession shapes or recovery shapes are used by economists as an informal shorthand to characterise recessions and their recoveries. The names derive from the shape the economic data – particularly GDP and employment – take during the recession and recovery. The most commonly used terms are V-shaped, U-shaped, W-shaped (also known as a double-dip recession), and L-shaped recessions.

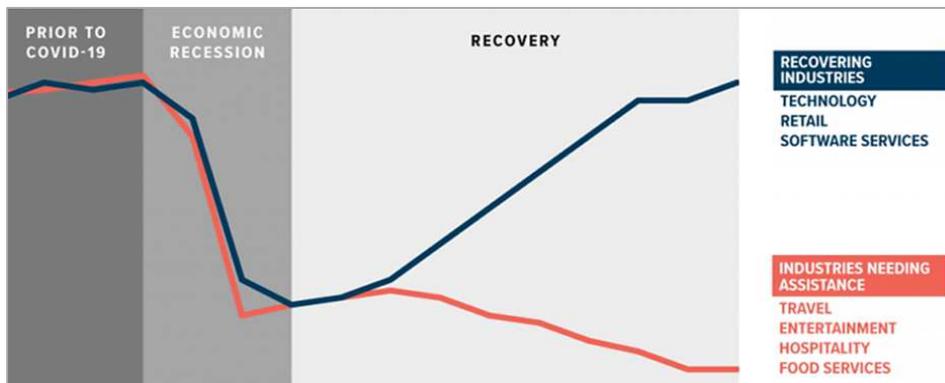
Figure 68: Recovery alphabet



Source: Brookings Institution (4 May 2020), [The ABCs of the post-COVID economic recovery](#)

During 2020, economists have debated the letter-form trajectory of the recovery ahead. The 'consensus' eventually settled on a new letter: the letter K. A 'K-shaped recovery' is where different parts of society – e.g. different economic sectors – experience different recovery paths. Some parts of society experience more of a V-shaped recession, while other parts experience a slower more protracted L-shaped recession (the shape of the K denoting the divergence in the recovery paths).

Figure 69: K-shaped recovery



Source: US Chamber of Commerce (3 September 2020), [What is the K-Shaped Recovery?](#)

International benchmarking K-shaped recovery in the US labour market

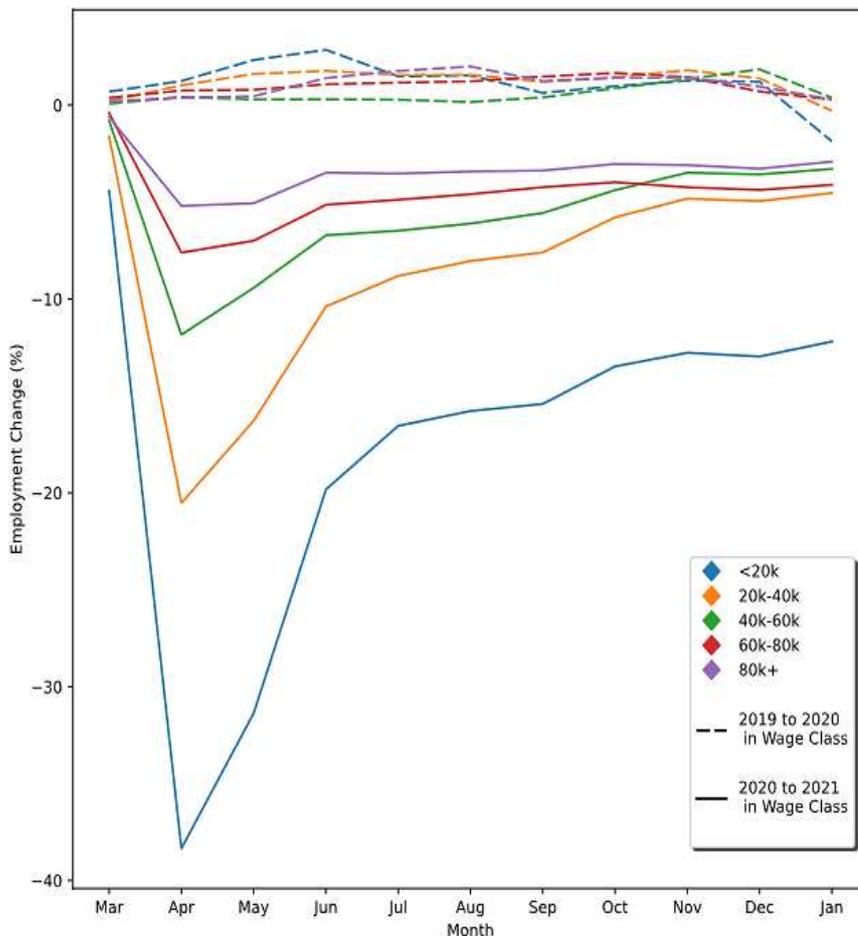
When talking about 'different parts of society', the reference is usually to a divergent economic performance *across* economic sectors / industries.

However, a divergent recession and recovery path is also experienced *within* sectors; in other words, the 'K-shaped recovery' concept also describes the impact of the crisis in terms of changes in employment e.g. by wage level. Figure 70 shows that in the US, workers at the lower end of the pay scale have suffered a more severe fall in employment, and a slower recovery, than workers at the higher end of the scale.

Job losses are also correlated with age, sex, and ethnicity. According to Harvard University's [Opportunity Insights Economic Tracker](#), in the Covid-19 downturn (between February 2020 and May 2020):

- one quarter of young adult workers (aged 16-24) lost their job compared to an average of -13% across the whole workforce;
- more jobs were lost by women than men (respectively, -15% v. -11%);
- Hispanic and Asian women experienced particularly sharper job losses than other workers (-21% and -19% respectively, compared to e.g. -9% for white men).

Figure 70: Overall employment change in the US, by wage class



Source: US Department of Labor, Bureau of Labor Statistics, February 2021, Working Paper 536: 'The K-Shaped Recovery: Examining the Diverging Fortunes of Workers in the Recovery from the COVID-19 Pandemic using Business and Household Survey Microdata' (available at [this link](#))

5.2. Covid-19 and the Falkland Islands economy

The Covid-19 downturn (and the subsequent recovery) appears to be K-shaped in the Falkland Islands as well, as different sectors of the economy have been affected to varying degrees by the crisis – some appear to have recovered quickly, while others are facing a longer recession.

5.2.1. Export-oriented sectors

Like many other small island economies, the Falkland Islands is characterised by high trade openness in global terms. The sum of exports and imports stood at 111% of GDP on average between 2016 and 2018 – compared with a world average of 58% over the same years (Figure 48 at p. 52).

On average between 2016 and 2018, ca. 65% of GDP came from export-oriented sectors – fishing, agriculture, and tourism – and while this ensures a high level of welfare and sound fiscal revenues in good times, it poses a serious threat to economic resilience in times when the global economy is hit by a number of acute shocks – as during the current pandemic.

As a consequence, although there has been no local spread of the virus within the civilian population, in 2020 the economy has suffered the impact of the pandemic, mostly as a result of its strong links with the global economy through established trade flows.

The global Covid-19 pandemic hit the Falkland Islands economy through a series of shocks impacting, in turn:

- international air connectivity;
- the wool export market;
- the fishing sector's logistics and operations; and
- international tourism flows.

The Falkland Islands Government has so far acted firmly to mitigate the impact of such shocks and will continue to closely monitor the evolution of the situation globally and locally in order to be able to sustain economic resilience in the medium and long term.

Wool exports

Falkland Islands wool exporters were the first to get hit when, in Spring 2020, the global wool market froze (Figure 71) and sales opportunities for the wool produced during the 2019/2020 season abruptly disappeared.

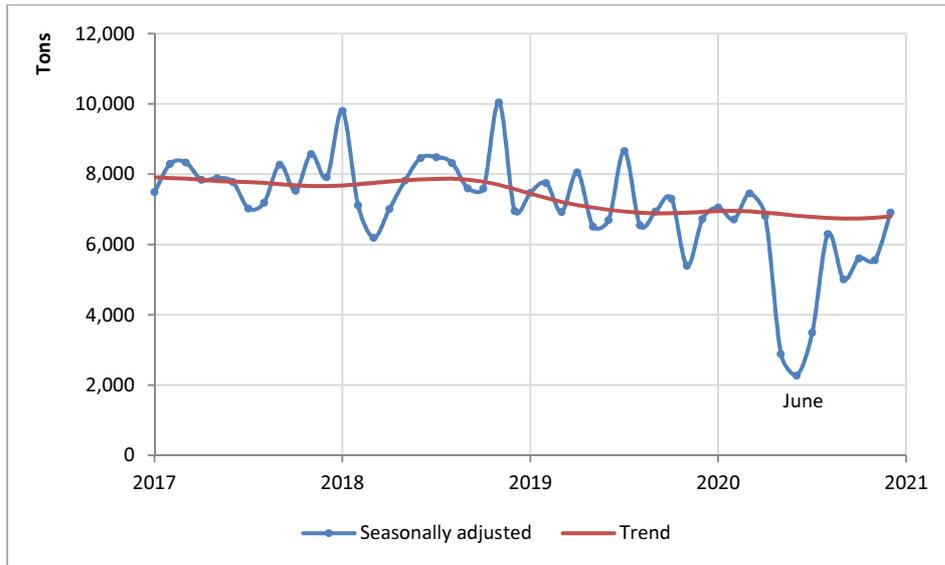
The Falkland Islands Government responded with the 'Covid-19 Wool Producers Assistance Scheme 2020' – a support programme designed to offer wool producers to purchase the 2019/20 balance of unsold wool clip (kept by the government as an asset to be sold at a later date).

Quantities imported into the EU27 (the Falkland Islands' major export destination for wool) have slowly gone back to the pre-Covid19 trend. Wool markets are currently open and producers are selling 2020/21 wool clip without issues. However, EU market import prices for wool are still low and

have just started to show signs of recovery (Figure 72).⁴⁷

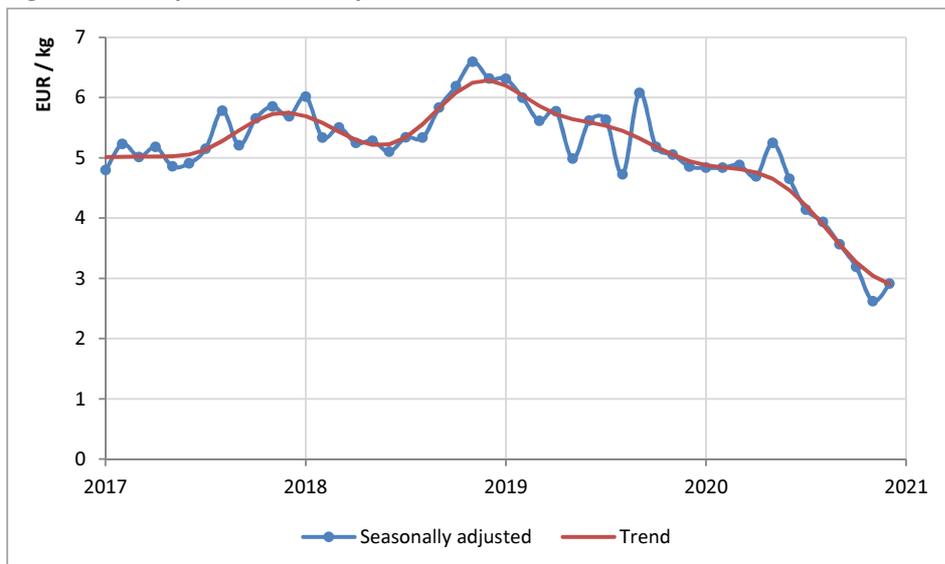
Moreover, the current suspension of both LATAM air links with South America posed significant challenges to the farming community, in terms of logistics and workforce recruitment. For example, during the 2020/21 wool season, overseas staffing levels were significantly reduced both on farms and within contractor shearing gangs, and delays in wool sample testing (usually carried out by the New Zealand Wool Testing Authority) because of disrupted international air links translated into consequent delays in sales.

Figure 71: Quantities of wool imported into the EU27 from non-EU countries
Monthly data (tons)



Source: [Datacomex](#); FIG DPED analysis

Figure 72: Sale price of wool imported into the EU27 from non-EU countries



Source: [Datacomex](#); FIG DPED analysis

⁴⁷ It is worth noting, however, that wool prices were already declining in 2019 – that is, the Covid-19 shock only exacerbated a downward trend from historic peaks that had already started in late 2018.

Fishing operations and logistics

While continuing to be able, in most cases⁴⁸, to sell fishing products at prices in line with the past average (or even higher, see Figure 59 at p. 61 on export prices for *loligo* squid), fishing companies had to make significant changes to their operating models (with particular regard to logistics and crew exchanges) due to, among other factors, current disruptions in international air connectivity. It is very likely that this has resulted in an increase in operating costs.

For example, the suspension of commercial air links with South America meant that all crew exchanges normally carried out in the Falkland Islands ceased during 2020, and fishing crews needed to be housed in Spain between the 2019/20 and the 2020/21 seasons. Also, technical support had to be delivered on line or in Europe, and fishing companies faced challenges with certification and surveys.

International tourism flows

The impact on the tourism sector followed – the sector having to face a completely lost tourist season due to the collapse of international tourist flows, the suspension of both commercial air link connecting the Falkland Islands with South America, and the health policies applying to travellers arriving on the Islands.

The Falkland Islands Government responded with a wide-scale suite of support schemes, with the objective of mitigating the effects of the global pandemic on tourism businesses and employees over the lost tourism season, as well as preparing the sector to take advantage of renewed demand in future years.

The schemes included the Tourism Recovery Incentive Programme (TRIP), a domestic tourism stimulus scheme open to Falkland Islands residents and providing eligible adults with a £500 digital voucher and eligible children with a £250 digital voucher to be spent on tourism accommodation, hospitality, and experiences provided by registered tourism businesses. TRIP has proved to be successful, with 2,858 resident individuals having registered so far – almost 100% take-up.

Workforce recruitment – the case of FIMCo

Finally, farmers have faced the additional impact of a decision by the Falkland Islands Meat Company not to hire foreign workers for the 2021 export season, which will result in reduced abattoir capacity. A decision, made as a result of the Covid-19 pandemic (as well as other global shocks, including the potential impact of Brexit), which is also an example of how the pandemic is exerting its price in terms of workforce recruitment and retention – a key issue for an economy that relies on hundreds of temporary workers (see Figure 4 at p. 15).

FIG responded with the 'FIMCo Supplier Support Scheme' compensating farmers for mutton scheduled for supply to FIMCo that could not be processed.

⁴⁸ A significant exception is toothfish, which appears to have been impacted significantly in terms of sale prices.

5.2.2. Domestic market-oriented sectors

Even if the Falkland Islands economy has been hit by the Covid-19 crisis most because of *external shocks* deriving from its strong links with the global economy, a certain impact – in terms of economic losses – has also come as a consequence of choices made at national level and dictated by the need to adopt measures to maintain public health and protect the population.⁴⁹

In March 2020, the Falkland Islands Government took action under the Infectious Diseases Plan in order to protect the local community, by closing schools and nurseries, and asking people to reduce all non-essential activities. These actions were motivated by the fact that, at that time, it was not possible to test for Covid-19 on the Falkland Islands, UK air links were disrupted, and a number of individuals had symptoms consistent with Covid-19.

With the primary goal of reinforcing and supporting these public health actions, while minimizing the social and economic impact of the necessary restrictions, FIG launched an initial package of measures (the so-called ‘Employment / Self-employment’ scheme) to support private sector employees, employers, and the self-employed, compensating eligible applicants⁵⁰ at full wage rate (capped at £2,500 per month).

In April 2020, on receipt of test results from the UK, it became clear that there were no positive cases in Stanley. Moreover, the King Edward Memorial Hospital had in the meantime received key supplies of medicines, additional equipment, and additional skilled staff, and was better-placed to respond to a potential spread of the virus within the community.

As test results in Stanley continued to be negative, in late April the construction sector was allowed to resume activity. Restrictions were subsequently eased for all economic sectors in May 2020, also in light of the fact that the equipment necessary to carry out Covid-19 tests in Stanley became operational. Nevertheless, FIG continued to ask people to practise social distancing and follow all public health advice.

At the same time, FIG launched a second package of economic support measures (most of which are still in force as this report goes to print), with the aim of assisting businesses, private sector employees and households in adapting to the economic effects of the Covid-19 pandemic. The measures were intended to assist in adapting to both the impact of an *external shock* and

⁴⁹ This does not mean that if the Falkland Islands government had not taken any action, such economic losses would not have been felt. It has been shown that countries that have put in place measures to suppress the spread of the virus have performed better in terms of both health and economic performance; while countries that traded deaths against the economy (and thus sacrificed lives to allegedly reduce economic losses) tended to end up with both high mortality and higher economic costs (cf. Bernard H Casey, London School of Economics (18/12/2020), *Covid-19: Is there a trade-off between economic damage and loss of life?* available at [this link](#)).

⁵⁰ This first package of measures covered workers not able to work from home and falling in the following categories:

- high-risk “vulnerable” workers required to self-isolate;
- symptomatic workers required to self-isolate;
- workers without symptoms but advised by KEMH to self-isolate due to a household member being symptomatic with a fever;
- workers without symptoms but advised by the government to stay home due to being classified as a non-essential worker;
- workers who are sole carers of one or more children in self-isolation.

a reduced level of domestic demand – possibly due to a shift in households' consumption patterns, or a general worsening in consumer sentiment (e.g. because of greater uncertainty about the future) as well as business sentiment (driving companies further down the supply chain to reduce spending and investment). This package of measures includes:

- a Job Retention Scheme covering 80% of salary for furloughed employees and those put on short-time – and a similar scheme (the 'Self-Employed Income Supplement Scheme') to support the income of self-employed workers;
- an enhanced Unemployment Subsidy System to support the residual number of dismissed employees;
- direct non-repayable grants to micro, small and medium-sized business, with a specific focus on those in the hospitality and childcare sectors;
- government-backed loan guarantees for businesses;
- a temporary (90-day) reduction in the price of electricity; and
- a temporary (90-day) waiver of residential and commercial Service Charges.

Proxies for economic activity in 2020

It will not be possible to make a detailed estimate of what reduction in economic activity the Falkland Islands economy suffered in 2020 before the 2020 National Accounts could be compiled (i.e. in 2022).

However, a number of methods are widely used internationally to estimate proxies for economic activity, and include high-frequency indicators such as mobility data (e.g. Google maps data), retail data (e.g. credit card transactions), or electricity consumption or production.⁵¹ Such methods can be useful to get a broad sense of the extent to which the Covid-19 pandemic has impacted Stanley-based domestic-market-oriented economic sectors in 2020.

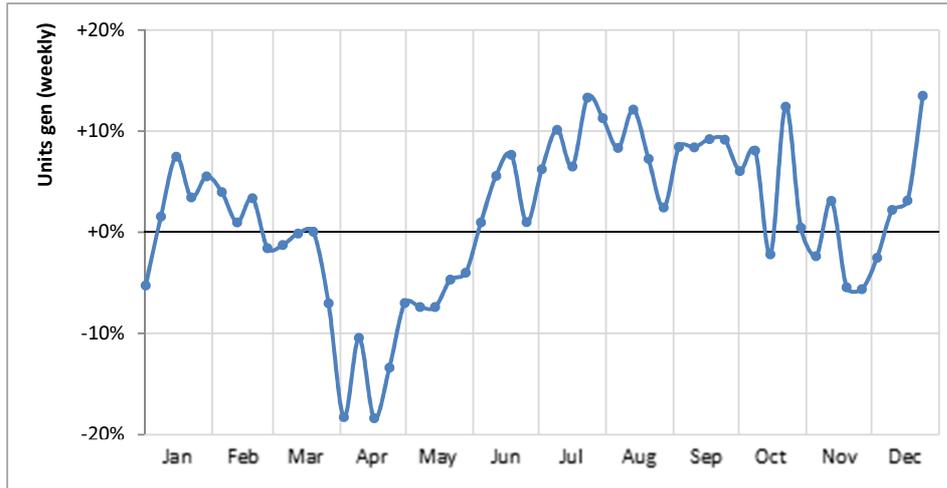
Figure 73 shows the level of electricity production in 2020 compared to the average of 2018 and 2019.⁵² In 2020, electricity production was below the average of 2018/2019 starting from the end of March and until the end of May, with reductions of up to a maximum of -18% (recorded in a couple of weeks of April). Electricity production was generally above the 2018/2019 average for the rest of the year.

At the end of the year, the power plant's total electricity production was exactly the same level (99.9%) in 2020 as in 2019.

⁵¹ See e.g. the [Bruegel electricity tracker of COVID-19 lockdown effects](#).

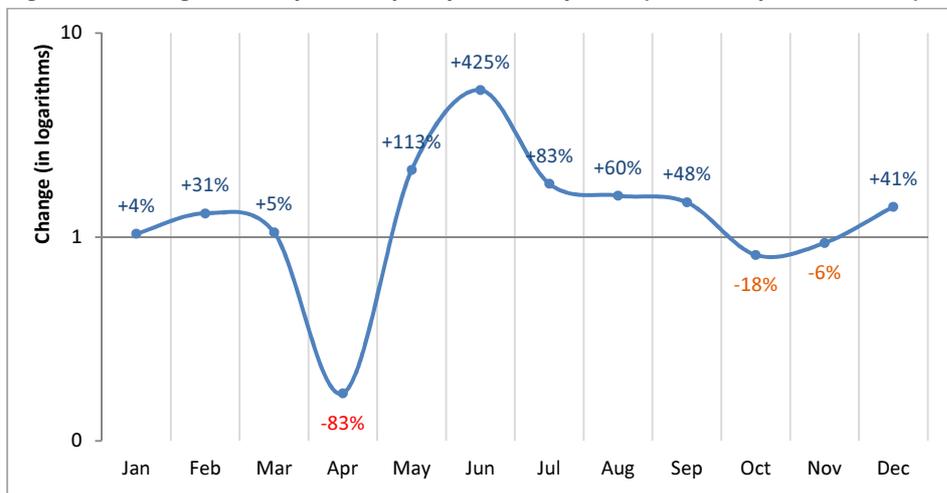
⁵² Electricity production must be only taken as a broad proxy for economic activity – and not a perfect one – in that data also includes electricity supplied to residential houses, schools, KEMH, etc. Moreover, commercial activities likely require the same amount of electricity even if their level of income is reduced by a lower level of demand for their goods or services.

Figure 73: Electricity production in 2020 compared to the average of 2018/19



Source: Falkland Islands Power Plant

Figure 74: Changes in Pony’s Pass quarry’s monthly sales (2020 compared to 2019)



Source: Falkland Islands Pony’s Pass quarry

Data on total sales at the Pony’s Pass Quarry can be considered a good proxy of economic activity in the construction sector.

Figure 74 shows that a strong decrease in sales in April 2020 (-83% compared to 2019) was followed by a strong rebound in May-September, when sales were double compared to the same months of 2019.⁵³ At the end of the year, the quarry's total sales were 27% higher in 2020 than in 2019.

Data on payment support packages can also constitute a proxy measure of the severity of the Covid-19 shock on domestic economic sectors.

To date, around £2m⁵⁴ has been injected into the economy in support of private sector employers and employees, self-employed workers, and households (Table 9).

⁵³ The increased production of the quarry during the winter potentially explains part of the increased production of electricity in the same months.

⁵⁴ This sum excludes the support packages specifically designed for wool and meat producers.

This stands at ca. 2% of non-resource and non-agricultural⁵⁵ GDP in 2018 (i.e. the most recent year for which data is available), although there are significant variations in the level of public support across sectors.

→ International benchmarking box on 'Public support measures worldwide' at p. 82

When excluding support to the tourism sector, the size of discretionary fiscal response to the Covid-19 crisis goes down to ca. 1% of non-resource and non-agricultural GDP in 2018.

Table 9: Economic measures (excluding agriculture-focused measures)

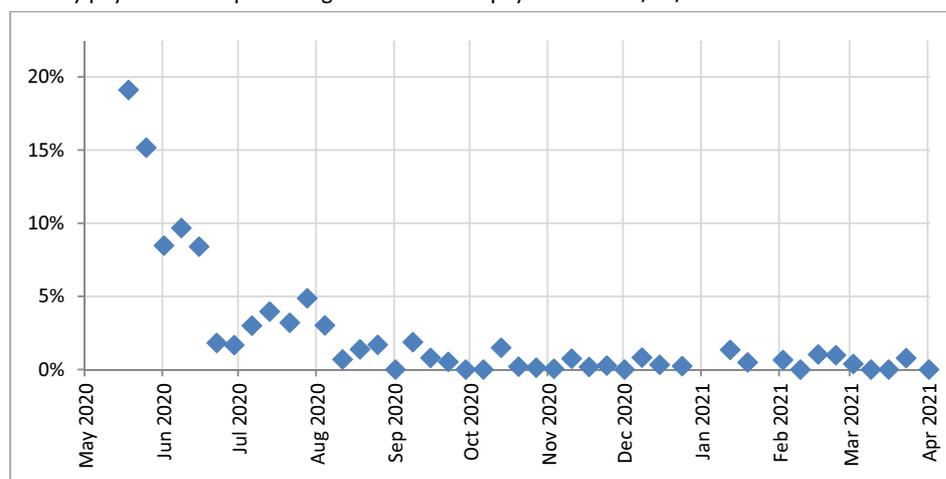
| Economic measure | Amount spent (at January 2021) |
|---|--------------------------------|
| Employment / Self-employment | £663k |
| Job Retention | £245k |
| Self-Employed Income Supplement | £72k |
| Unemployment Subsidy | £14k |
| Direct Grants | £121k |
| Electricity credit | £165k |
| Service Charge waiver | £126k |
| Tourism Recovery Incentive Programme (TRIP) | £625k ⁵⁶ |
| Total | £2.0m |

Source: FIG Treasury and FIG DPED

After a significant input of resources in May-June 2020, public support demanded by the private sector has decreased to limited marginal increases, suggesting that most sectors have experienced a quick recovery (Figure 75).

Figure 75: FIG Economic Support Schemes⁵⁷

Weekly payments as a percentage of cumulative payments at 19/01/2021



Source: FIG Treasury

⁵⁵ Since the total value of support payments considered excludes those support packages specifically designed for wool and meat producers, it makes sense to express it as a share of *non-resource* and *non-agricultural* GDP.

⁵⁶ This sum only refers to payments already made to tourist businesses; the total amount of TRIP vouchers allocated stands at ca. £ 1.3m.

⁵⁷ Support schemes included in the chart are:

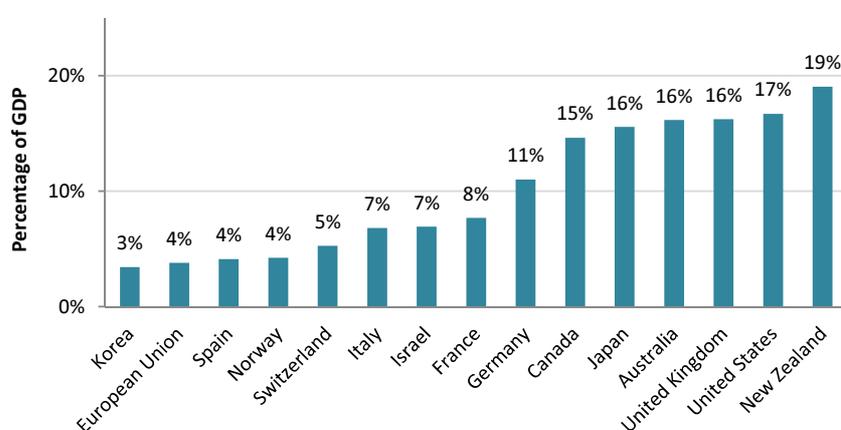
- the 'Employment / Self-employment' scheme;
- the Job Retention Scheme;
- the Self-Employed Income Supplement Scheme;
- the Unemployment Subsidy System;
- the Direct Grants Scheme to micro, small and medium-sized business.

International benchmarking Public support measures worldwide

To date, around £2m has been injected into the economy in support of private sector employers and employees, self-employed workers, and households. This stands at ca. 2% of non-resource and non-agricultural private sector GVA in 2018 (or 1% when excluding support to the tourism industry). Figure 76 puts this figure into perspective by comparing the size of discretionary fiscal response to the Covid-19 crisis in a number of advanced economies.

The low level of support in the Falkland Islands, compared to other countries, does not indicate a government reluctance to assist the private sector during the downturn (as a demonstration of this, the amount actually spent is a fraction of what initially allocated) – rather it supports evidence of a lower intensity of the crisis in the Falkland Islands than in many other countries.

Figure 76: Discretionary fiscal response to the Covid-19 crisis⁵⁸



Selected advanced economies. Source: International Monetary Fund, [Fiscal Monitor Database](#)

5.2.3. Summary

Based on the considerations discussed above, it can be concluded that the Covid-19 downturn (and subsequent recovery) appears to be K-shaped in the Falkland Islands, as different sectors of the economy have been affected to varying degrees by the crisis.

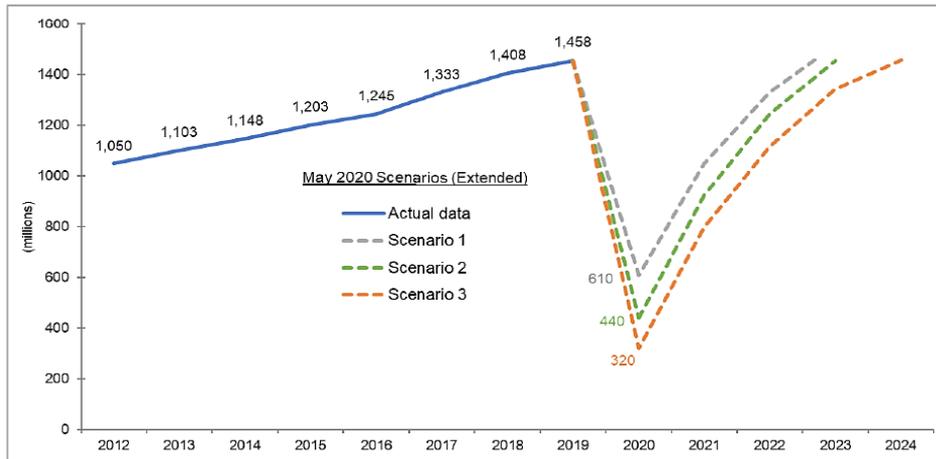
- The performance of a number of sectors – including most domestic-market-oriented sectors, such as information and communication, financial services, professional and administrative services – has been broadly in line with recent years' trends. Other sectors – e.g. construction, retail sale, support service activities – have experienced, to varying degrees, a reduction in the rate of activity in Spring 2020, but have already recovered or are likely to fully recover relatively quickly.
- Disruptions to international supply chains, logistics, and air connectivity have posed serious challenges to those sectors that are most exposed to shocks in world markets and most dependent on foreign labour – such as

⁵⁸ Data for the US does not include the \$1.9t American Rescue Plan Act approved on 11/03/2021 (which would add a further estimated 8.5% of GDP; bringing the US total to ca. 26% of GDP).

agriculture and fishing.⁵⁹ Businesses in these sectors have managed to address these challenges by adapting their operating models to changing conditions. There is significant uncertainty around when disruptions in international logistics and connectivity can be resolved.⁶⁰

- c. Given the current state of international air connectivity and the available projections of international tourist flows (Figure 77), it can be expected that it will take longer for tourism – the sector most affected by the crisis – to return to pre-crisis levels of activity.

Figure 77: International tourist arrivals: future scenarios



Source: UNWTO World Tourism Barometer, August/September 2020 edition (available at [this link](#))

However, it's worth underlining that economic sectors cannot be viewed as completely separate from each other. Even if most domestic market-oriented sectors appear to have recovered from the downturn experienced in March-April 2020, a prolonged reduction in tourism income would have some impact on the wider economy e.g. through *induced effects* – that is, a reduction in spending by households that usually rely to a significant extent on tourism income. To counterbalance this, the tight Falkland Islands labour market would allow many individuals previously working in the tourism sector – often as a secondary rather than a primary employment – to shift to other occupations until tourism prospects improve.

Moreover, alongside the tentative classification provided above – that is, an attempt to describe the divergent paths to recovery of different economic sectors – it should be stressed that different businesses within the same sector have probably suffered the impact of the crisis to different degrees, with some finding it harder than others to fully recover after the economic shock.

The wide range of measures put in place by FIG to support the private sector during the downturn were designed to help reduce disparities and effectively shield those companies most affected by the pandemic. Work will continue throughout 2021 to determine the effectiveness of these interventions.

⁵⁹ Both the impact of Brexit on trade with the EU and commodity price cycles pose additional pressure on these sectors.

⁶⁰ The suspension of regular commercial air links with South America continues to be an issue for businesses in other sectors as well (including those listed in point a.) in terms of availability, flexibility, and cost of air carried cargo (e.g. spares and parts) and workforce recruitment and retention.

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