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Foreign and Commonwealth Office

London SW1A 2AH

15 April 1982

Dear John,

Falkland Islands Company

The Prime Minister has agreed to see Mr Ted Needham, the Chairman of Coalite and of the Falkland Islands Company (FICo) at 3.30 pm today. I understand that Mr Needham wants to inform the Prime Minister of the views of the FICo employees in the present situation. I enclose a background note on FICo. It is the main land-owner and employer in the Islands (45 per cent of the farmland, 50 per cent of wool-producing capacity, about 250 employees).

Mr Needham has been regularly in touch with the FCO since the Argentine occupation of the Islands. His immediate preoccupation was that the charter vessel used by FICo to remove the wool clip and to provide supplies to the Islands (FICo also operate the main retail outlets) was at sea en route for Port Stanley. Mr Needham was initially reluctant to accept our advice that the vessel should not proceed but should put in at another port to await developments: but he eventually did so after the advice was confirmed to him by Ministers and after the announcement of the maritime exclusion zone. The charter vessel is now on its way to Ascension Island.

Mr Needham has more generally been concerned about the future of his company's operations in the Islands. We have advised him that, in the present uncertain situation, it would seem premature to try to reach any firm view and that the position could only be sensibly judged in the light of political/military developments in the next few weeks. He has not as yet raised the question of liability if the Argentine occupation or subsequent military action damage the company's assets and prospects.

/Mr Needham

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Mr Needham remains in regular contact with the FICo manager in Port Stanley through the Cable and Wireless link. The local FICo manager has confirmed that FICo employees are so far safe and well; that the farms continue to run; and that the company's retail outlets in Port Stanley and the operation of the FICo jetty have not been seriously affected, although short-staffed (through the exodus of people from Port Stanley to the countryside).

Mr Needham is a bluff, rather deliberately abrasive Northcountryman, who has at times given the impression of being somewhat out of his depth in the present situation.

You have agreed that John Ure should also attend Mr Needham's call.

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

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FALKLAND ISLANDS COMPANY

1. The Falkland Islands Company (FICo) is a major landowner and by far the largest of the overseas companies with commercial interests in the Islands. A subsidiary of Coalite Limited, whose Chairman, Mr C E (Ted) Needham, is also the Chairman of the FICo.

2. Coalite's interests are very widespread. They include the production of smokeless fuel; chemical-processing; coal and fuel-oil distribution (including 6% interest in Sovereign Oil and Gas UK); vehicle-building and distribution; building materials; shipping; oil-rig servicing; transport and warehousing. The turnover was of the order of £360 million a year; profit was about £21.5 million. The company was No 46 in the profitability league of the top 200 British companies.

FICo involvement in the Islands

3. FICo has virtual monopoly control in many areas of commercial life, eg:

- (a) ownership of 45% of farmland, 50% of the wool-producing capacity;
- (b) through ties with other externally-owned farming companies, a strong influence on at least half of the remaining farmland;
- (c) effective control of internal and external shipping;
- (d) ownership of the sole commercial jetty and direct employer of the only dock labour force, giving it control over the loading and unloading of all produce and supplies;
- (e) a dominant role in the marketing of the Islands' wool through its conduct of auctions between the two (or occasionally three) UK brokers involved;

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- (f) most of the insurance, finance and other commercial services for its own and other enterprises;
- (g) the largest buying agent and importer of equipment for its own and other farms and for retail in its own stores and the settlement shops;
- (h) marketing diesel supplies by the MOD.

4. The company's investment record in the Islands has in the past been poor but has improved in recent years. Under Grasslands Trials Unit supervision 500 acres in Lafonia have been re-seeded with encouraging results. The company has also responded to Lord Shackleton's recommendation concerning the establishment of smaller farming units by selling its Green Patch Farm to the Government for sub-division. Nevertheless, local FICO managers are under the strict control of the Head Office in London and find it difficult to obtain money for capital investment projects which do not show quick returns. Lack of investment was one of the major criticisms in the 1976 Shackleton Report.

5. The Argentines regard the company as a major obstacle to their ambitions. In 1978, Argentine interests made a fairly overt bid for ownership of the company, although the Argentine Government at the time maintained that they had played no direct part. The Argentine Government suggested to the previous Government on several occasions that the company be taken over by a joint holding company representing the UK, Argentine and Islander interests.

6. We have frequently considered the merits of a take-over of the company. But there has been no case for doing so on economic grounds. Cost of a possible take-over is estimated to be in the region of £5-10 million.

School hostel

7. FICO are involved in the construction of the new school hostel in Stanley. FICO are still in dispute with the Falkland Islands Government and ODA over design faults and conditions of contract.