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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

FUTURE OF THE GIBRALTAR DOCKYARD

Note by the Secretaries

The attached paper, prepared by an inter-departmental group of officials, is circulated for consideration by the Committee.

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Cabinet Office

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Note by Officials

INTRODUCTION

1. The White Paper on the defence programme (Cmnd 8288), published in June 1981, said -

"... consideration will be given to alternative ways of fulfilling the government's obligation to support the economy of Gibraltar if it is decided that the dockyard work there cannot be kept up indefinitely. This consideration will be undertaken in closest co-operation with the Gibraltar Government."

Behind this statement lay a decision to make reductions in the Royal Navy's surface fleet and to abandon mid-life modernisation of frigates, with the result that substantial reductions are being made in the Royal Dockyard Organisation. The closure of Chatham and Portsmouth Dockyards in 1984 has been announced.

2. This note, which has been prepared by the Official Group on Gibraltar under Cabinet Office chairmanship, presents the results of officials' examination of the problem of the Gibraltar Dockyard. The report considers the requirements of defence policy, the United Kingdom commitment to Gibraltar, the economic effects of closure of the dockyard, possible alternatives to a retention of the dockyard, and the implications of postponing its closure. It will be clear that some way must be found to reconcile the needs of the Ministry of Defence (MOD) in the context of the Defence Programme Review with the Government's commitment to support and sustain Gibraltar in present circumstances. None of the options examined is without cost and Ministerial decisions will be needed to determine a preferred option as the basis for the consultations with the Gibraltar Government planned for later this month.

## DEFENCE POLICY REQUIREMENTS

3. The Royal Navy's future requirements for ship repairs and refits can be met by retaining only two of the existing five Royal Dockyards, Devonport and Rosyth. For Gibraltar, the MOD plan to close the dockyard by the end of 1982 and to keep only a small capability to undertake local repairs. The MOD have decided to discontinue Leander frigate refits, the main work for which Gibraltar is equipped; and no further refit work is programmed for Gibraltar after the spring of 1982. The proposed reductions would result in savings to the Defence Budget of at least £10 million per annum from the end of 1982. Redundancy and early pension payments totalling about £7½ million would fall mainly in 1982-83.

4. The MOD is also considering further savings in Gibraltar, namely transfer of the dockyard technical college to the Gibraltar Government, closure of the Royal Navy hospital, reductions in RN staffs and support services, and reduced opening hours at the airfield. While these measures would have some impact on the economy of Gibraltar, they are being pursued separately.

5. A decision on the future of the dockyard needs to be made quickly if the post-Defence Review programme of work is to be implemented as planned and the necessary discussions are to take place with the Trade Unions about the rundown. The current programme of work runs out substantially at the end of 1981-82 and an announcement of what is to follow on is awaited. Deferment of a decision to close the dockyard would mean continuing uncertainty and delay over the implementation of MOD plans for the dockyards generally, and could lead to under-utilisation of the workforce at Gibraltar. The savings would not be achieved in the timescale planned. Indeed extra works expenditure would be needed if the condition of the dockyard were not to deteriorate further. The MOD has not budgeted for any expenditure in the Gibraltar dockyard after 1982. Running it on beyond the end of 1982 would mean additional costs for which there is no provision in the Defence Budget.

## THE GIBRALTAR ECONOMY AND THE UNITED KINGDOM COMMITMENT

6. Gibraltar has an area of  $2\frac{1}{4}$  square miles and a population of about 30,000 (20,000 Gibraltarians, 6,000 British servicemen and their families, 3,000 Moroccans and 1,000 other nationals including 250 Spaniards). Gibraltar's economy is heavily dependent on MOD expenditure and expenditure by defence personnel stationed in Gibraltar, currently some £33 million per annum. Together, and without taking account of the indirect effects, these amounted to a little more than half of Gibraltar's gross domestic product (GDP) at factor cost in 1979-80. By comparison tourist receipts and domestic exports amounted respectively to 17 per cent and 6 per cent of GDP. Apart from an acute housing shortage caused mainly by the lack of suitable building land, standards of living are generally comparable with those in the United Kingdom. Locally engaged civilians working in service establishments in Gibraltar enjoy parity of pay with the United Kingdom as do the Gibraltar Government's own staff. Gibraltar has enjoyed a growth rate of more than 4 per cent per annum since 1970. The unemployment rate stands at present at 5 per cent.

7. The current Spanish restrictions against Gibraltar were introduced progressively from the mid-1960s until finally in 1969 the border was closed. The United Kingdom's response to the Spanish restrictions was to introduce a policy of "support and sustain", which continues to this day. This policy has been maintained by successive administrations, who have, however, been careful to emphasise that it does not constitute an open-ended commitment. The policy is not intended to guarantee a particular standard of living or level of employment in Gibraltar. The mainstay of the policy has been the British military presence on the Rock.

8. A new situation would arise if the Spanish government were to discharge their obligations under the 1980 Lisbon Agreement to re-establish direct communications between Gibraltar and Spain. The short term impact of lifting the border restrictions is uncertain and could be negative, but the final balance of expenditures is likely to be heavily in Gibraltar's favour: in practice it would not be possible to abandon "support and sustain" overnight. So far the Spanish government have not committed themselves to a firm date for the implementation of the Lisbon Agreement. Indeed they have attempted to modify what was agreed at Lisbon and to

secure further concessions before they open the border. Their application for NATO membership provides Spain with an opportunity for opening the border over the next six months; if this opportunity is missed there could be further indefinite delay, perhaps until Spain accedes to the European Communities (EC). Spain hopes to join the EC at the beginning of 1984, although the timetable could slip. The Spanish Government have been told that an Accession Treaty would not be placed before the British Parliament if the border restrictions remained.

#### ECONOMIC AND POLITICAL EFFECTS OF CLOSURE OF THE DOCKYARD

9. The dockyard at present employs some 200 United Kingdom based and 1,870 locally entered staff. There would be 795 MOD, plus 160 PSA locally entered civilian job losses, 955 in total, and 155 United Kingdom based staff would return home. Job losses would exceed these figures because of secondary effects throughout the economy. Closure of the dockyard would reduce defence spending in Gibraltar by about 18 per cent. After the rundown, the MOD and PSA would continue to employ some 2,000 local staff and to spend about £27 million in Gibraltar annually.

10. The effect on the Gibraltar economy of dockyard closure would be severe, although it would be cushioned at first by the redundancy payments by MOD to locally entered workers in the dockyard, and by unemployment and other payments made by the Government of Gibraltar. If it is assumed that these payments will be used by the recipients to maintain their general pattern of living for as long as possible the cushioning effect might last as long as 18 months. The economic effects can therefore be separated for the period up until redundancy pay is exhausted, and thereafter. For the first period the effect would be to increase the numbers unemployed by approximately 1,100, thus increasing the unemployment rate from 5 to 13 per cent. The loss in disposable income taking into account redundancy and other payments would be approximately £1.2 million or 1.8 per cent; the net loss in government revenues including the payment of unemployment and other benefits would be £2.3 million or 4.0 per cent. Thereafter unemployment ~~rate~~ would rise further to 17.4 per cent of the full-time labour force. The loss of disposable income would

rise to £4.4 million or 6.5 per cent and the net loss to government revenues would rise to £4.6 million or 8.0 per cent, all in 1981 prices. (It has been estimated that the consolidated fund balance would be exhausted in less than two years as a result.) All of these calculations assume no emigration as a result of closure. In practice some of those made redundant, eg Moroccans, might choose to emigrate; so the unemployment problem might be reduced.

11. Irrespective of the temporary mitigating effect of redundancy payments, closure of the dockyard without substitution of alternative economic activity would almost certainly provoke serious industrial unrest in Gibraltar and the Chief Minister has already warned that his Government might not be able to continue in office. In addition, there would almost certainly be strong Parliamentary criticism in the United Kingdom.

#### POSSIBLE REMEDIAL MEASURES

12. The Gibraltar Government commissioned a study by consultants of the potential for alternative economic activities, in particular the creation of a commercial ship repairing facility. (The study also examined the likely economic impact of dockyard closure and reached conclusions similar to those in paragraph 10 above.) A summary of their report, which was issued in October 1981, is at Annex A.

15. Commercialisation of the dockyard was examined in some detail. The consultants concluded that the only way of establishing a viable commercial facility, owned by the Gibraltar Government but operated by a managing agent, would be to establish it on the following lines -

a. Government funds would have to be made available, totalling of the order of £25 million over the first 5 years, for capital investment, retraining, provision of working capital and an operating subsidy; and the existing land, buildings and moveable assets required for the operation of the dockyard (valued at £19 million) would have to be made available free;

b. there should be a major restructuring of the labour force to reduce numbers and raise productivity;

c. wage levels should no longer be determined by parity with the United Kingdom; ie there would have to be significant real reductions in wages of the order of 15 per cent; and

d. some naval refit work should be diverted to Gibraltar, valued at some £30 million over a five year period, to assist in the transition.

14. There are already indications of commercial interest in the dockyard. This interest appears to be in the possibility of running it on a managing agent basis; there appears to be little immediate prospect of attracting private capital to invest in the dockyard, given the excess of capacity over demand in the ship-repairing industry generally and the present high wage costs and low productivity of the labour force.

15. Government financial assistance towards the establishment of a commercial ship repair facility in Gibraltar would require the approval of the European Commission. Opposition from Italy and Greece, and possibly France, could be expected.

16. From the studies carried out so far, it is clear that substantial costs would be associated with a commercialisation scheme on the lines envisaged by the consultants. In addition, major changes in wages and in working practices would be required if a commercial yard were to have any chance of becoming profitable. The prospects of establishing a viable commercial yard must at present be regarded as doubtful; a British government subsidy might have to continue indefinitely. But further study, in consultation with potential commercial operators (both United Kingdom and foreign) is required before a soundly based conclusion can be reached, whether favourable or not. This would take another six months. Such studies and consultations ought also to explore the possibility of involving the operator as an equity partner, as well as managing agent - probably after a two or three year settling period; otherwise there would be little incentive on the operator's part to work for profitability, and a corresponding risk that the yard would need long term support from public funds.

17. Commercialisation, on the scale envisaged by the consultants, would go a long way to offsetting the economic impact of closure. But unemployment would still rise, by roughly 5 per cent. With commercialisation on a smaller scale, the rise would be higher. Whether or not the dockyard was commercialised, there would have to be development of other kinds of economic activity.

18. Tourism is already an important source of income for Gibraltar. But it will be difficult to achieve growth while the border remains closed. Expenditures would however increase to the benefit of Gibraltarians if, particularly with border opening, an attraction were provided which was not available in the neighbouring regions of Spain. The Gibraltar Government might consider discussion of the possibilities of further tourism investment with international tourism and leisure enterprises. For Gibraltar to develop as a financial centre, more sophisticated banking facilities and financial services would have to be offered. Small industries, especially sophisticated electrical engineering or electronics for which skilled labour is likely to be made available with the closure of the naval dockyard, are another possible development. None of these possibilities has been studied in depth; and they should be.

## AID

19. Assistance in the form of aid to Gibraltar would be unlikely on its own to mitigate substantially the economic effects of the dockyard closure. Budgetary aid, unless it could be tied firmly to a specified period, perhaps for as long as the border remained closed, would be an open-ended commitment. Some forms of development aid, eg for social infrastructure projects and income generating activities, would mop up a degree of unemployment but could not provide long-term relief to the economy. Re-opening of the border <sup>may be likely to create additional problems for the Gibraltar economy</sup> in the short term, would eventually improve the chances of attracting additional economic activities, particularly if surplus skilled labour were available.

20. In March 1981 the Gibraltar Government submitted a request for £18 million of development aid in support of the first three years of the 1981/86 Development Plan. The request has not been discussed with the Gibraltar Government because of the need to consider the future



economic development of the Territory in the light of the Defence Review. Ministers have made provision for new aid to Gibraltar of £1.5 million in 1982-83 and £2.5 million in 1983-84, over and above the amount needed to cover existing projects. These allocations were made before the MOD proposed closure of the dockyard. In the context of closure of the dockyard ODA officials consider that additional aid to Gibraltar would be justified totalling £6 million over the period 1983-84 to 1985-86; and that because pressures on the Aid Budget are rising, while its real value is declining, this additional aid could only be found for Gibraltar either from the Central Reserve or at the expense of high priority candidates elsewhere.

#### LANDS

21. Under the existing agreements on the disposal of surplus MOD land and buildings, which were last revised in 1974, any surplus natural land is transferred to the Gibraltar Government free of charge, as are any surplus buildings for which the Gibraltar Government has no continuing use. In the case, however, of surplus reclaimed land or buildings for which the Gibraltar Government has a continuing use (whether the buildings themselves are subject to modification or not) the agreement expects that the Gibraltar Government pay for the property transferred. In practice, the Gibraltar Government could not afford to pay for any substantial assets transferred to their ownership; and they contend that in equity Gibraltar should not have to pay for her 'own' land when surplus to MOD requirements. In the context of closing the dockyard, the Gibraltar Government are likely to press hard for free transfer of assets required for a commercial dockyard. A concession of this sort, which would require specific Parliamentary approval, could well form a part of the arrangements reached with the Gibraltar Government.

#### IMPLICATIONS OF THE POSTPONEMENT OF CLOSURE

22. The dockyard is no longer required by the MOD. The only warships for which it is currently equipped are LEANDER class frigates and Mine Counter-Measures Vessels (MCMVs). The former are now to be disposed of or placed in reserve without further refit. To adapt the dockyard for work on Type 21 class frigates or conventionally-powered submarines would

cost £5 million and £10 million respectively and take 18 months and 5 years respectively. Landing Ships Logistic (LSLs - a type of Royal Fleet Auxiliary (RFA)) could provide, without requiring additional facilities, a workload roughly equivalent to that of the current LEANDER frigates and together with MCMV and other minor repair work could make up a balanced load. Other RFA refits would be another possibility. But all the work which could be given to Gibraltar is within the capacity of the two remaining Home Dockyards. To remove this work would save few dockyard resources at home.

23. Continued operation of the dockyard would require a workforce of about the present level. Total dockyard overheads would be larger than necessary and total expenditure on naval repair and refit after 1982 would be around £9 million per annum higher than the MOD now plan. The Defence Budget is under such pressure that this could only be accommodated at the expense of cuts elsewhere in the Defence programme. Illustratively, it would equate to the annual running costs of 2 frigates or 4 conventional submarines. Furthermore, it would leave the United Kingdom with a continuing liability in Gibraltar serving no defence need.

24. A decision to retain Gibraltar as a naval dockyard while Chatham and Portsmouth were being closed would be greatly resented by the United Kingdom dockyard workforce whose co-operation during the rundown is vital. It could be hard to defend a decision to protect Gibraltar from the consequences of naval cutbacks while doing nothing for United Kingdom workers similarly affected. Critics would contrast current unemployment levels of 3 per cent in Gibraltar with 15 per cent in Chatham and 11.5 per cent in Portsmouth.

#### SUMMARY

25. There is no further defence requirement for the Gibraltar dockyard and the MOD are planning to close it at the end of 1982; the operating costs during the rundown period in 1982/83 would total £7.5 million, and there would also be redundancy and increased pension costs of about £7 million (see Annex B). There is no doubt that closure of the dockyard would cause a sharp fall in economic activity in Gibraltar, whether or not the border

with Spain was open by then. The statement in Cmnd 8288 (see paragraph 1) implies our own acceptance of obligation to provide help elsewhere if we are no longer able to maintain the dockyard. Equally, however, there is no presumption that the United Kingdom is required to act in such a way that no rise in unemployment or fall in incomes occurs in Gibraltar. Where the line should be drawn is a matter for a political judgement made against the background of what practical help can be provided, and how much can be afforded.

26. The principal measure which would appear to offer prospects of reducing the immediate impact of closure is the conversion of the yard to commercial ship repairing. However, there are doubts as to whether a commercial operation could be made viable even with substantial government support. The estimated costs, which total some £50 million, are tabulated at Annex B. Some complementary economic development outside the dockyard would be required, and the ODA consider that £10 million would be required for this. It will take six months to examine this option thoroughly enough to provide the basis for a decision. Commercialisation is thought to be the Gibraltar Government's likely preference provided that they are given financial and other support.

27. Variations within the package just described could involve commercialisation on a small scale, and correspondingly more extensive development outside the yard. These have not been costed at this stage. In any event it is unlikely that a solution which did not entail some degree of commercial use of the dockyard facilities could contribute much to the alleviation of Gibraltar's economic problems following closure - at least until some time after the border restrictions were lifted.

28. The cost of running on the dockyard, if closure is postponed, is also shown at Annex B. Postponement would probably be cheaper than commercialisation in the short-term, though it leaves the United Kingdom government with a continuing liability.

29. Until negotiations with the Gibraltar government and with potential commercial operators of the dockyard have begun, it is not possible to establish the total or indeed the potential costs of commercialisation.

Partly for this reason the Group has not addressed the question of which Departments' budgets would bear which parts of the costs. Except for £4 million of aid, £7½ million of dockyard operating costs to end-1982, and £7½ million of redundancy costs, no Department has made provision for any of these costs - ie of a total potential bill arising from immediate closure and commercialisation of £78 million compared with £61 million for running on, £59 million and £42 million respectively still would have to be found over the period 1983-84 to 1987-88. In view of the pressures on public expenditure, the Treasury would not wish to find additional money for these purposes. Ministers will wish to note that if, after consultation with the Gibraltar Government, their preferred course of action entailed expenditure not at present budgeted for, decisions would be needed at the same time on the allocation of costs.

#### ALTERNATIVE COURSES OF ACTION

30. In the light of the Government's commitment to consultations with the Gibraltar Government, final decisions cannot be taken now. But decisions must be taken by early next year if the dockyard rundown is to proceed in the planned timescale. There are three alternative approaches to the consultations with the Gibraltarians -

- a. to inform the Gibraltar Government that our changed plans for the Royal Navy mean that we can no longer sustain the naval dockyard in Gibraltar after 1982 and to explore with them, in the light of the consultants' report and without commitment at this stage, what alternative economic activities, including possible commercialisation of the dockyard, might be introduced; the consultations should also cover the associated lands and aid issues with the aim of agreeing a package with the Gibraltar Government;
- b. to consult the Gibraltar Government on the basis that no firm decision has been taken on the future of the dockyard and that we should like to explore with them and interested firms the question of commercialisation, and any other possibility, over the next 6 months; in the meantime we would continue to keep the yard occupied with naval work. This course would involve delaying closure of the yard at least until 1983, and incurring additional costs for which no provision has been made;

c. to decide that, given the doubtful prospects for alternative economic activities, the naval dockyard should continue in being, subject to a further review of its future when the border with Spain re-opens; we would, however, be willing to continue to study its possible commercialisation, but without any financial commitment at this stage.

#### CONCLUSIONS

31. The Group considers that alternative c. would be the least satisfactory: it would involve acceptance that a dockyard no longer required for naval purposes might have to be maintained indefinitely purely to provide relief for Gibraltar and could expose Ministers to pressures for taking similar action in the United Kingdom. On the other hand this course is likely to be cheaper in public expenditure terms than in the early part of the transitional period after closure, though more costly in later years and yielding no useful result.

32. Unlike b., a. does not give the Gibraltarians an incentive to spin out negotiations: although the consultations are genuine and although no irreversible action will be taken to close the dockyard until alternatives have been fully explored, it will have been made clear that the decision to close at the end of 1982 is not negotiable. For the same reason, a. involves no risk of compromising MOD's timetable and savings. Under both a. and b. we would have to make it clear to the Gibraltarians that we see no way in which some rise in local unemployment and some fall in economic activity could be avoided. Under a. an announcement could be made on the interim work programme for 1982, thus paving the way for consultations with the Trade Unions.

33. Ministers are invited to choose one of the alternatives in paragraph 30 above. If a. or b. is chosen, final decisions on the future of the dockyard, and on the associated lands and aid questions, would be needed in the spring of 1982 (perhaps later in the case of b.) in the light of the consultations with the Gibraltar Government and future study of commercialisation and other alternatives to the dockyard.

Cabinet Office

4 November 1981

GIBRALTAR DOCKYARD STUDY  
SUMMARY OF CONSULTANTS' REPORT

Introduction

1. The main objectives of the study were to identify the likely impact of the Defence Programme Review on Gibraltar and to establish the potential for commercial ship repair if H M Dockyard Gibraltar were to close by the end of 1982, as the Ministry of Defence (MOD) would prefer.

The Defence Programme Review

2. Over the past few years, two continuous streams of refits have provided the bulk of work in Gibraltar: one of Batch 1 and 5 Leander class frigates and the other of mine countermeasure vessels (MCMV). Together they account for 85 per cent of dockyard labour requirements. The probable outcome of the Defence Review is that the only frigate refit programmes to continue will be undertaken at Devonport. Given the cessation of Batch 1 and 5 Leander refits at Gibraltar, labour requirements would fall by some 60 per cent. At this level, the naval dockyard would be uneconomic to run. The naval options are then closure or the introduction of new work.

Dockyard Closure

3. Closure of H M Dockyard Gibraltar would have the following consequences for the Gibraltar economy after, say, 18 months when the cushioning effects of redundancy payments had worn off.

- a. direct employment loss of some 950 jobs in dockyard departments, accounting for 9 per cent of the employed labour force in Gibraltar.
- b. total employment loss of some 1,550 jobs, taking into account the indirect effects of closure.
- c. resulting unemployment levels of almost 18 per cent.
- d. fall in income of 4.4 m at 1981 prices, representing 6.5 per cent of household incomes.

4. The Gibraltar Government's budgetary position would also worsen as a result of both increased expenditure on welfare payments and falling revenue. This could have extremely serious consequences. The Consolidated Fund Balance of £8.7m could be exhausted in less than two years and could only be protected by cuts in government expenditure or by increases in taxation, both of which would lead to further reductions in employment and income. In seven years, the balance of the Social Insurance Fund could fall from £6.0m to £2.0m. The lower figure represents the amount of outstanding claims by Spanish workers previously employed in Gibraltar.

5. Consideration has been given to the other major economic change which might accompany dockyard closure - the opening of the border with Spain. An open border would pose a high risk for Gibraltar. Even in the most favourable case it would impose substantial administrative and infrastructure costs. In the worst case this would be compounded by a substantial short-run fall in income.

6. If the opening of the border were to coincide with the closure of the dockyard this would confront the Gibraltar Government and economy with an unacceptably high rate of economic change with serious adverse social and political consequences.

#### Future Naval Work

7. The planned configuration of the Royal Navy, and the changes which are taking place in the home dockyards, indicate that long-run prospects for new naval work are poor. Such naval work as might be programmed for Gibraltar should therefore assist in an orderly transition to commercial ship repair. The programme recommended is a continuation of MCMV refits, together with refit work on Royal Fleet Auxiliaries (RFA) which have work requirements similar to normal commercial work.

#### Market Assessment

8. Gibraltar is well located to obtain commercial work. On the basis of total vessel movement in the relevant market area, Gibraltar would need less than 1 per cent of the market in the size-range appropriate to No.s 1 and 2 Docks and around 5 per cent of that relevant to No 1 Dock, assuming 60 per cent dock occupancy.

#### Dockyard Facilities and Capital Investment

9. Discussions with the MOD indicate that the dockyard area which would probably be released in the event of closure is, for the most part, adequate for commercial ship repair. However, capital investment is needed to make good a lack of past investment, modify certain existing facilities for commercial use and provide additional facilities needed for commercial work. Total capital requirements are estimated at £14.4m.

#### Financial Appraisal

10. In carrying out a preliminary financial appraisal of a commercial ship repair facility, it has been assumed that the dockyard would be under commercial management by the beginning of 1985 and that MCMV refit work would be available for the first two years of operation and RFA refit work for the first five years to assist in the transition. It has also been assumed that assets will be transferred to the Government of Gibraltar at zero price. On these assumptions, the appraisal indicates that the commercial facility would experience an operating loss in each of its first five years, even if it were not responsible for training costs, provision of working capital and the capital expenditure programme. In Year 5, the operating loss would be £0.7m.

11. The results have only been reached by assuming, from Year 1, a very substantial reduction in management and administrative staff, accompanied by a 25 per cent fall in the production labour force. The fact that this large assumed gain in productivity still does not appear likely to provide viability simply underlines the uncompetitiveness of the present productivity and cost levels in the dockyard. Commercial viability could be achieved after five years but only if wage costs are further reduced. This could be achieved partly by improving physical productivity, and partly by the application

of significant wage restraint. Because of the existing parity agreement with the United Kingdom, wage levels in Gibraltar are much higher than in competing areas and it is unlikely that this could be offset simply by increases in labour productivity.

12. A revised financial appraisal of costs and revenue in Year 5 was undertaken which assumed reduced wage costs relative to other areas of 15 per cent over a five year period, combined with a further reduction in the labour force. This produced results consistent with financial viability.

15. The direction of certain naval refit work to Gibraltar, to assist the transition, and the capital investment programme would require substantial United Kingdom assistance to Gibraltar. In addition, there would be a further requirement for some form of operating subsidy during the five-year transition period. A successful commercial ship repair operation in Gibraltar will also require significant adaptation on the part of Gibraltarians. Radical change will be needed in management organisation, employment, work practices, labour productivity and wage costs.

#### Management

14. Whilst it is assumed ownership of the assets would be vested in the Gibraltar Government it is not anticipated they would operate the commercial facility. An established firm of ship repairers with a first class international reputation should be appointed as managing agent, with complete control over the running of the yard.

#### Main Conclusions

15. To establish a viable commercial facility in the Gibraltar Dockyard will require that:-

- a. the areas of the dockyard no longer required by the Ministry of Defence be transferred to the Gibraltar Government free of charge.
- b. the Gibraltar Government appoint a managing agent to operate the commercial facility.
- c. certain naval refit work be directed to Gibraltar to assist in the transition.
- d. funds be made available for capital investment, retraining costs, provision of working capital and an operating subsidy for the start-up period.
- e. there should be a major restructuring of the labour force in order to reduce overheads, improve working practices and raise labour productivity.
- f. there is an acceptance of the fact that such changes will inevitably involve a smaller workforce than that presently engaged in the naval dockyard.
- g. wage levels should no longer be determined by application of the parity principle.



POSSIBLE FUTURE EXPENDITURE

	82/3	83/4	84/5	85/6	£m 86/7	87/8
1. CLOSURE (at end-82)						
a. Cost of naval work	7.5	-	-	-	-	-
b. Redundancy and early pension payments	6.6	0.2	0.2	0.2	0.2	0.2
Sub-total	14.1	0.2	0.2	0.2	0.2	0.2
2. COMMERCIALISATION						
a. Cost of naval work	2.1	8.4	8.4	5.3	5.3	4.8
b. Savings in Home Dockayrds	-0.1	-1.0	-1.0	-0.6	-0.6	-0.6
c. Commercialisation costs (capital expenditure, training, working capital)	-	4.2	4.8	2.2	3.1	3.4
d. Losses of commercial yard	-	1.8	0.4	1.4	0.8	0.7
Sub-total	2.0	13.4	12.6	8.3	8.6	8.3
3. AID (outside the dockyard)						
a. Existing provision	1.5	2.5	-	-	-	-
b. Additional aid	-	1.0	3.0	2.0	-	-
Sub-total	1.5	3.5	3.0	2.0	-	-
4. POSTPONEMENT OF CLOSURE						
a. Cost of naval work	10.6	10.6	10.6	10.6	10.6	10.6
b. Savings in Home Dockyards	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Sub-total	9.6	9.6	9.6	9.6	9.6	9.6

Note:

In 2 above, no figures have been given for the notional cost to the British Exchequer of gifting dockyard assets (estimated value £19 million) to Gibraltar, nor for any receipts arising if the assets are charged for.