



PM/81/56

PRIME MINISTER*Prime Minister*

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*To note.*Gibraltar*pm* *Reeds* *30/x1*

1. At our meeting in OD on 12 November, we agreed that the Gibraltarians should be consulted on the future of the dockyard, the closure of which was to start by the beginning of 1983. A team of officials led by the Foreign and Commonwealth Office was in Gibraltar from 24 to 26 November in order to start the consultations.
2. The Gibraltarians had hoped that, although that was not how the pledge in last June's Defence White Paper was phrased, they would have been consulted over possible closure of the Dockyard. And they wanted a firm offer of help, in line with our support and sustain commitment, to finance alternative economic activity including dockyard commercialisation. There were demonstrations and a token strike during the team's visit. Public concern was running high. The discussions were nonetheless amicable and an agreed joint record and communique were produced.
3. The principal issue discussed was the closure and possible commercialisation of the naval dockyard. The Gibraltarians have done considerable preparatory work. They will now approach potential civilian operators: there were encouraging signs of commercial interest. It will take some months before the cost of commercialisation is established, but it is already clear it would not be feasible unless dockyard lands and assets were made available free of charge.

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4. Proposals to reduce the hours of operation of the airfield provoked a strong reaction. The Gibraltar Government see the airfield as providing their vital links with the outside world; and it is essential to the tourist trade. The extra cost of operating the hours required by the Gibraltarians is now being established.

5. The Gibraltar Government were discontented that their request for £18 million of aid for the first three years of their 1981-86 development programme had not been answered. The uncertainty and reduced capital expenditure were affecting the economy. They were offered additional ODA-funded consultancies and may need to be given a small amount of additional aid ahead of any package deal involving the dockyard. Despite the fact Gibraltar is not 'aid-worthy' by any normal development standards, we do, of course, have our continuing commitment to 'support and sustain'.

6. The Chief Minister of Gibraltar, who remains very balanced in his approach to consultations, has asked for an early visit to London. The Lord Privy Seal and I have agreed to see him ahead of the visit which the Spanish Prime Minister may be making for talks with you on 18 December. Sir Joshua Hassan's visit and the current discussion of the technical issues at the official level should hold the position for the time being. Much will depend on how negotiation goes with potential commercial operators of the dockyard. The main difficulty will continue to lie in the absence of any indication of what finance, if any, will be available from the British Government to aid the transition. We may need to consider that early next year should Gibraltar confidence look like breaking down.

Now 8 Jan.

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7. I am copying this minute to other OD colleagues and Sir R Armstrong.

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(CARRINGTON)

Foreign and Commonwealth Office

30 November 1981

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Gibraltar

CONFIDENTIAL

1 December 1981

Gibraltar

The Prime Minister has seen and taken note of the Foreign and Commonwealth Secretary's minute to her of 30 November about our recent discussions with the Gibraltar Government.

I am sending copies of this letter to the Private Secretaries to other members of OD and to David Wright (Cabinet Office).

MODBA

F.N. Richards, Esq.,
Foreign and Commonwealth Office.

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PRIME MINISTER

Future of the Gibraltar Dockyard
(OD(81) 50)

BACKGROUND

The future of the Gibraltar Dockyard was one of the issues arising out of the Defence Programme Review in the summer which was not settled by OD then. The June White Paper (Cmnd 8288) 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"; and the Secretary of State for Defence (his minute of 27th July) agreed with the Foreign and Commonwealth Secretary that officials should consider the problem.

2. Foreign and Commonwealth Office and Ministry of Defence officials were unable to agree on proposals for Ministers to consider, and an official group under Cabinet Office chairmanship was set up to try to resolve the problem. A report from private consultants was also commissioned by the Gibraltar Government. The paper before OD is the Official Group's report.

3. The consultants' report is summarised at Annex A to the Note by Officials. Officials' findings are summarised in paragraphs 25-29; alternative courses of action are set out in paragraph 30; and officials' conclusions are in paragraphs 31-33.

4. The Government is committed to consultations with the Gibraltar Government before taking final decisions. The decision required now is on the basis on which consultations with the Gibraltar Government are to take place. Officials were unable to reach an agreed recommendation. All but one Department wished to recommend Course a. of paragraph 30 of the note by the Foreign and Commonwealth Office preferred not to commit themselves.

5. The central difficulty is that neither the consultants nor officials have identified any alternative activity, if the naval dockyard is closed, which would support the Gibraltar economy (at least until the border with Spain re-opens), other than converting the dockyard to commercial ship-repairing; and conversion would be expensive in capital terms, would require operating subsidies initially,

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and could be viable only if there were major changes in working practices and a fall in real wages: even then its long term viability is uncertain. Prospects of attracting private risk capital look poor (see paragraphs 13 - 16).

6. The Secretary of State for Defence, in his minute of 9th November, has reiterated the importance to the defence programme of a decision to close the Gibraltar dockyard by the end of 1982, and has expressed a strong preference for Course a. He points out that the domestic difficulties of large-scale redundancies in the home dockyards would be aggravated if it was decided not to close Gibraltar. One of the necessary elements in any scheme to commercialise the dockyard is likely to be the provision of naval repair and refit work in the first few, perhaps five, years of the transition to full commercial operation. Mr. Nott argues that the extra cost of placing this work in Gibraltar should not be a charge to the Defence Budget.

7. Officials did not attempt to submit a recommendation on the question of Departmental responsibility for future expenditure on Gibraltar, partly because most of the figures are still hypothetical. But the sums at stake could, as adding Items 1, 2 and 3 in Annex B to the paper shows, amount to £17.1 million in 1983-84 and £15.8 million in 1984-85 if the dockyard is commercialised. Apart from the redundancy and early pension payments, and a relatively small amount of aid, (totalling £2.7 million in 1983-84 and £0.2 million in 1984-85) Departments have made no provision in their programmes to meet these costs. The Secretary of State for Defence has already made his position clear. The Foreign and Commonwealth Secretary can be expected to argue that, if unbudgeted costs are to be charged to the Aid Programme, the size of the programme will have to be increased accordingly. The Chief Secretary, Treasury will resist this, arguing that savings in public expenditure resulting from the closure should be preserved intact.

HANDLING

8. You will wish to invite the Secretary of State for Defence to open the discussion and the Foreign and Commonwealth Secretary to give his views.

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9. In the ensuing discussion, you will wish to focus the Committee's attention on the alternative courses of action (paragraph 30 of the Note by Officials), and to cover the following points:-

- (a) Is it agreed that closure of the naval dockyard should be the Government's aim?

There is no point in maintaining a dockyard in Gibraltar for which there is no defence requirement. The change in naval ship-repair policy announced in June means that the principal type of work for which the Gibraltar dockyard is equipped is no longer to be carried out. And it will be hard to defend taking work out of British yards (whether naval dockyards or British Shipbuilders) simply in order to sustain employment in Gibraltar which has a far lower level of unemployment than Britain. But further consultations are needed on whether any commercial operator is interested in running the facility as a commercial yard, whether a scheme can be devised which offers a better prospect of achieving profitability than the one drawn up by the consultants, and whether limits could be placed on the British Government's financial responsibility for the yard.

- (b) Which of alternatives a. and b. is to be preferred?

In both cases the necessary consultations with the Gibraltar Government and with potential commercial operators of the dockyard will take some six months, though a. will inject a greater sense of realism and urgency. Under a. the Ministry of Defence would not have to wait until the completion of this process before declaring some of the workforce redundant, namely those specialists who will no longer be required after the last frigate refit has been completed in January or February 1982.

- (c) How far is it necessary to go, politically, to support the Gibraltar economy?

What are the risks of provoking unrest in Gibraltar, and how strong are domestic political pressures likely to be?

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10. Because the cost (as well as the feasibility) of commercialising the dockyard cannot be accurately assessed until further discussions involving commercial firms take place, any decision now on which Department should bear the cost of supporting Gibraltar would have to be taken without being able to assess the full consequences for either the defence or aid programmes. The practical consequences would be felt largely in 1983-84 and the succeeding years, since it is in these years that Departmental budgets do not include any provision relating to the Gibraltar dockyard. But whether a decision on funding is taken now or later, Mr. Nott might be asked to accept a practical compromise on the lines that the future costs of any naval work should be borne in full by the Defence Budget and Lord Carrington to accept that the costs of commercialisation (other than transfer of dockyard assets) and other expenditure on aid should be found from the aid budget.

CONCLUSION

11. Subject to the discussion you will wish to guide the Committee to endorse alternative a. in paragraph 30 of the Note by Officials.

REA

Robert Armstrong

11th November 1981

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for O.S.

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PRIME MINISTERGIBRALTAR RUNDOWN - CABINET OFFICIAL GROUP REPORT

I thought I should let you know my position on the Officials' report on the Gibraltar dockyard closure.

2. In previous discussions and in correspondence with the Foreign and Commonwealth Secretary I have made clear the need to proceed with this measure, which relates to the overall plan to reduce the dockyard service from 5 to 2 yards, sufficient to support the future Naval fleet. It is therefore necessary for me to insist on the first course of action identified in the report's conclusions, for it is the only way in which we can avoid significant delay or even indefinite postponement of the closure.

3. I realise that we have to take account of the uncertainties about ways of maintaining Gibraltar's economy following the closure and the possibility that this could mean an open-ended commitment of UK aid. But there is a clear danger that, if we do not start consultations with the Gibraltar Government on the basis of a firm intention to close the dockyard in 1982, they will have very little incentive to find alternatives for the future, and we shall be left with a Naval dockyard which is already beyond our requirements.

4. The Officials' report makes reference to the likelihood of industrial and political effects in the UK if we are seen to be maintaining Navy work in Gibraltar when Chatham and Portsmouth dockyards are to close. Until now there has been no protest, on the assumption by the UK workforce that closure of the Mediterranean



yard will take place, but if it is learned this is not to be, those who are fighting for the home yards will point to the contrast of Chatham's current unemployment rate of 15% (rising to over 20% when the yard closes) and Portsmouth's of 11% with Gibraltar's 3%. Any aid to Gibraltar will be seen as just that, for there is no justification for it in defence terms. It goes without saying that the large scale redundancies which start early next year are still a matter of considerable political controversy - and we are probably talking here of more than 10,000 job losses in the dockyard area.

5. I recognise the Government's commitment to consult with the Gibraltar Government on alternative ways to support their economy if it is decided that the dockyard work cannot be kept up indefinitely. And if OD can agree on the plan of closure at the end of 1982, I might be able to suggest some minor measures to alleviate the position. But I see little chance that the Defence Budget can bear any extra costs of a transitional work package when the work could be done more cheaply in the UK yards. At a time when I may face a massive cash squeeze on the defence programme approved in volume terms by the Cabinet last summer - an acute problem which I shall have to place before my Cabinet colleagues in the current discussion on public expenditure - I cannot afford to take on extra commitments which do not serve a defence purpose - and which would add still further to the severe problems which the Government may have to face.

6. I am sending copies of this minute to OD colleagues, the Chief Secretary and Sir Robert Armstrong.

Ministry of Defence

9th November 1981

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Faint, mostly illegible text covering the majority of the page, appearing to be a typed document or letter.



Prime Minister 2
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Secretary of State for Defence

MS

GIBRALTAR

Thank you for your minute of 27 July to the Foreign and Commonwealth Secretary in whose absence I am replying.

2. I am grateful for your indication that you are conscious of our difficulties. I agree of course that officials should have a closer look at the implications before we come to decisions. Our officials have in fact already proposed to the Treasury and your Department that discussion should begin as soon as possible.

3. You mention the question of the transfer of land to the Government of Gibraltar. As the Foreign Secretary said in his minute of 9 July, transfer of surplus MOD land without charge would go some way to ameliorating Gibraltar's problems, but we shall need to do more than this. As you know, we cannot accept that the extra aid which will be needed if the dockyard is to be closed or naval activity there drastically reduced should be found within the existing Aid Programme. We would expect that these considerations would be in mind when our officials get together to formulate proposals for us. I think we should discuss again when proposals are a little firmer.

4. I am copying this minute to the Prime Minister and the Chancellor of the Exchequer.

1.4.7.

5 August 1981

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SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

GIBRALTAR

We had a word about your minute of 9th July.

2. As you know, I am very conscious of your difficulties over this complicated question. You, I think, are well aware of mine. I realise that the dockyard has considerable importance to Gibraltar's economy but, from my point of view, I have to make savings in the Defence Programme. There are also complicated and long standing questions over the transfer of land to the Gibraltar government.

3. I do not think that we can easily rush into decisions on these problems. By far the best thing, from my point of view, would be for our officials, together with those of the Treasury, to get together and work out a sensible series of proposals which we could all consider. I am sure we can come to a solution which will recognise your concerns.

4. Would you agree that we should proceed on this basis?

5. I am copying this minute, as you did yours, to the Prime Minister and the Chancellor of the Exchequer.

Ministry of Defence
27th July 1981

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Gibraltar

Prime Minister.

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28 JUL 1981

