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FROM GIBRALTAR 101101Z FEB 83
TO IMMEDIATE FCO TEL NO 16 OF 10 FEB 83
INFO IMMEDIATE MADRID
PRIORITY RABAT

GIBRALTAR FRONTIER

1. AS HINTED AT IN PARA 4 OF THE GOVERNMENT STATEMENT ON 7 FEBRUARY (WILDE'S LETTER OF 8 FEBRUARY TO SED), COUNCIL OF MINISTERS DECIDED ON 9 FEBRUARY TO TAKE LIMITED MEASURES TO PROTECT THE GIBRALTAR ECONOMY.

2. MINISTERS HAVE PROPOSED AND I HAVE AGREED THAT IMPORT DUTY ON CIGARETTES SHOULD BE REDUCED FROM £14.79 TO £9.19 PER 1000 CIGARETTES. THIS FOLLOWS FROM A FALL IN DOMESTIC SALES OF SOME 20% (AND RISING) SINCE THE LIMITED OPENING OF THE FRONTIER ON 15 DECEMBER. ALTHOUGH THERE ARE NO STRONG FISCAL GROUNDS FOR REDUCING THE DUTY AT THIS STAGE, MINISTERS HAVE CONSIDERED IT IS NECESSARY TO DO SO IN ORDER TO:

- (A) RESTORE LEVELS OF DOMESTIC PURCHASES
- (B) ENCOURAGE LOCAL TRADERS BY DEMONSTRATING THAT GOVERNMENT IS NOT MOTIVATED SOLELY BY REVENUE CONSIDERATIONS, AND
- (C) TO TEST MARKET ELASTICITY.

WE HAVE CONSIDERED POSSIBLE SPANISH REACTION, AND HAVE BEEN CAREFUL TO ENSURE THAT THE REDUCTION WILL NOT LEAD TO ENCOURAGEMENT FOR SPANARDS TO BUY CIGARETTES IN GIBRALTAR RATHER THAN IN SPAIN, NOR INCENTIVE FOR ILLICIT CARRIAGE OF CIGARETTES INTO SPAIN FROM GIBRALTAR. THE MEASURE IS DESIGNED PRIMARILY TO ENCOURAGE DOMESTIC PURCHASERS.

3. MINISTERS HAVE ALSO DECIDED THAT SOME PROTECTION IS NECESSARY FOR THE DOMESTIC BREAD INDUSTRY. SINCE 15 DECEMBER, LOCAL SALES HAVE FALLEN BY SOME 14% EQUIVALENT TO 10,000 LOAVES (KILO WEIGHT), IMPORTS FROM SPAIN HAVE INCREASED IN THAT SAME PROPORTION. MOREOVER, THE SPANISH FRONTIER OFFICIALS REFUSE TO ALLOW IMPORTS OF BREAD (EVEN THOUGH THEY ARE PERSONAL AND VERY SMALL IN QUANTITY) FROM GIBRALTAR. SOME BAKERIES ARE HAVING TO CUT BACK ON PRODUCTION AND ARE LAYING OFF STAFF. THE BREAD INDUSTRY IS AN IMPORTANT STAPLE, AND IN GIBRALTAR HAS EMOTIVE ASPECTS. THE WITHDRAWAL OF SPANISH LABOUR IN 1969 LEFT THE BREAD INDUSTRY IN PARTICULAR DIFFICULTIES AND IT WAS NECESSARY TO REGENERATE IT FROM DOMESTIC SOURCES. THIS HAS BEEN SUCCESSFULLY ACHIEVED AND THERE IS STRONG DETERMINATION AMONG MINISTERS WHICH I FULLY SUPPORT NOT TO ALLOW THE INDUSTRY TO DECLINE TO THE EXTENT

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THAT GIBRALTAR BECOMES DEPENDENT ON IMPORTS. THERE IS ALSO A BRITISH MILITARY AND STRATEGIC INTEREST IN ENSURING THAT GIBRALTAR HAS AN INDEPENDENT AND VIABLE INDUSTRY (BAKERS ARE REQUIRED BY LAW TO HOLD AS A STRATEGIC RESERVE THREE MONTHS SUPPLIES OF FLOUR, A COMMITMENT WHICH BECOMES INCREASINGLY A BURDEN AS BREAD SALES FALL).

4. ALTHOUGH I REGRET THAT THE STEPS IN PARAS 2 AND 3 SHOULD BE NECESSARY, I AM SATISFIED THAT BOTH IN THEIR INTENTION AND IN THEIR EFFECT, THEY COME INTO THE CATEGORY OF MEASURES TO PROTECT THE GIBRALTAR ECONOMY WHICH HAS BEEN ACCEPTED MIGHT BE NECESSARY (YOUR TELNO P100 OF 14 DECEMBER 82). I AM EQUALLY SATISFIED THAT THEY OUGHT NOT TO HAVE ANY SIGNIFICANT EFFECT ON THE SPANISH ECONOMY, WHICH WILL STILL BENEFIT (IN THE CAMPO AREA AT LEAST) TO A LARGER EXTENT THAN GIBRALTAR'S FROM THE LIMITED OPENING.

5. THE REDUCTION OF IMPORT DUTY FOR CIGARETTES WILL BE PUBLISHED IN THE OFFICIAL GAZETTE DURING THE AFTERNOON OF FRIDAY 11 FEBRUARY AND THEREFORE BECOMES EFFECTIVE ON THAT DAY. AS THIS IS LIKELY TO BE ANNOUNCED IN THE LOCAL NEWS BROADCAST AT 1809 (LOCAL TIME) MADRID MAY WISH TO ADVISE THE SPANISH MFA BEFORE THEN (BUT NOT BEFORE 1700 LOCAL TIME), DRAWING ON PARAS 2-4 ABOVE THOUGH WITHOUT REFERENCE TO THE FISCAL CASE.

6. THE MEASURE ON BREAD WHICH AFFECTS ALL IMPORTS INCLUDING THOSE FROM MOROCCO WILL BE A LIMIT OF ONE LOAF PER PASSPORT HOLDER - A MINIMAL CONTROL IN FACT. THIS WILL BE PUBLISHED IN THE SAME OFFICIAL GAZETTE (PARA 5 ABOVE) BUT THE MEASURE WILL NOT COME INTO EFFECT UNTIL MONDAY 14 FEBRUARY.

WILLIAMS

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