

NO. 10. DOWNING ST.

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FM GIBRALTAR 041045Z JULY 83
TO FLASH FCO TEL NO PERSONAL 01 OF 4 JULY
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YOUR TEL NO PERSONAL 49: PRIME MINISTER'S MESSAGE TO SIR JOSHUA HASSAN

1. FOLLOWING IS TEXT OF HASSAN'S REPLY TO PRIME MINISTER:

THANK YOU FOR YOUR MESSAGE. I AM GRATEFUL FOR THE CLOSE PERSONAL INTEREST YOU ARE TAKING IN THIS IMPORTANT MATTER AND FOR YOUR OFFER, WHICH WE WELCOME, TO SEND MR STEWART OUT TO GIBRALTAR. IN THE MEANTIME, I OFFER THE FOLLOWING COMMENTS ON A NUMBER OF POINTS ARISING FROM YOUR MESSAGE:

PARAGRAPH 2

IN OUR WRITTEN SUBMISSIONS AND AT OUR MEETINGS IN LONDON WE HAVE STRESSED THAT THIS IS NOT SIMPLY A QUESTION OF THE CLOSURE OF A DOCKYARD BUT ONE WHICH INVOLVES -

(A) THE PROBABLE EARLY AND TOTAL COLLAPSE OF A SMALL AND VULNERABLE ECONOMY, ALREADY UNDER PRESSURE, AND

(B) SERIOUS POLITICAL IMPLICATIONS, BOTH INTERNAL, BECAUSE OF THE POSSIBILITY OF DIRECT RULE, AND EXTERNAL, BECAUSE THE SPANISH GOVERNMENT WOULD BE ENCOURAGED TO DELAY FURTHER THE IMPLEMENTATION OF THE LISBON AGREEMENT AND TAKE POLITICAL ADVANTAGE OF A WEAKENED GIBRALTAR.

THESE VITAL CONSIDERATIONS, WHICH I WOULD LIKE TO STRESS, WITH ALL DUE RESPECT DO NOT APPEAR TO HAVE BEEN ACCORDED THE DUE WEIGHT THEY DESERVE, PUT THE SITUATION AT GIBRALTAR ON AN ENTIRELY DIFFERENT PLANE FROM THAT AT CHATHAM AND OTHER PLACES IN BRITAIN.

GIBRALTAR DOES NOT ASK TO BE IMMUNE. WE HAVE SPECIFICALLY ACKNOWLEDGED THAT WE MUST HAVE OUR SHARE OF BRITAIN'S DIFFICULTIES AND ACCEPT SUBSTANTIAL UNEMPLOYMENT (PARAGRAPHS 3(1) AND 6 OF THE MEMORANDUM I LEFT WITH YOU ON 30 JUNE). WHAT WE CANNOT AGREE TO IS TO PUT GIBRALTAR'S WHOLE ECONOMIC FUTURE AT RISK.

PARAGRAPH 4

THE GIBRALTAR GOVERNMENT HAVE ALREADY STATED CLEARLY THAT THEY ACCEPT THAT THE DOCKYARD MUST CLOSE (PARAGRAPH 2 OF MY MEMORANDUM). THEY ARE NOT ASKING FOR THAT DECISION TO BE CHANGED BUT, BECAUSE THEY BELIEVE THAT THIS HIGH RISK PROJECT WOULD IN PRESENT CIRCUMSTANCES PUT THE ECONOMY AT RISK AND ITSELF FAIL, MERELY THAT THERE SHOULD BE A PROPERLY PLANNED TRANSITION WITH AN AGREED DATE FOR CLOSURE. WE ARE GRATEFUL FOR THE EXTENSION OF SIX MONTHS WHICH YOU HAVE OFFERED BUT WE CONSIDER, ON ADVICE, THAT THIS IS REGRETTABLY NOT ENOUGH.

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PARAGRAPH 5

PARAGRAPH 5

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THE GIBRALTAR GOVERNMENT AGREE THAT A COMMERCIAL OPERATION IS THE ONLY PRACTICAL ALTERNATIVE BUT THEY CANNOT AGREE TO ASK FOR THIS IN THE MANNER AND TIME-SCALE PROPOSED. THE BRITISH GOVERNMENT THEMSELVES HAVE NOT EXPRESSED ANY CONFIDENCE THAT THE PROJECT WOULD SUCCEED NOR WOULD THEY BE PREPARED TO ASSIST THE PROJECT BEYOND A SET DATE. WHAT THEY HAVE STATED IS THAT, IF APPLIEDORE'S FORECAST OF FINANCIAL VIABILITY IS NOT MET, ANY FURTHER REQUEST FOR HELP MIGHT INVOLVE RECOURSE TO BUDGETARY AID.

PARAGRAPH 6

THE CONSULTANTS APPOINTED BY THE ODA AND THE GIBRALTAR GOVERNMENTS OWN INDEPENDENT ADVISERS HAVE CAST SERIOUS DOUBTS ON THE FORECASTS MADE BY APPLIEDORE WHO HAVE NO STAKE IN THE PROJECT. WE ARE NEVERTHELESS PREPARED TO ADOPT COMMERCIALISATION BUT NOT IN A MANNER WHICH, WE ARE CONVINCED, WOULD JEOPARDISE THE ECONOMY AND RESULT IN FAILURE.

PARAGRAPH 8

THE SURVEY OF LAND USE AND THE MOD REVIEW WOULD TAKE TIME AND ANY CONSEQUENT COMMERCIAL DEVELOPMENT WHICH MIGHT ASSIST THE ECONOMY WOULD BE LONG TERM. SOME PROGRESS COULD HOWEVER BE MADE DURING THE TRANSITIONAL PERIOD PROPOSED.

PARAGRAPH 9(1)

THE GIBRALTAR GOVERNMENT AGREE THAT THERE CAN BE NO ASSURANCE THAT THE PROSPECTS FOR A COMMERCIAL OPERATION WOULD BE ANY DIFFERENT AT THE END OF TWO YEARS BUT THEY DO CONSIDER ON ADVICE AND ON THEIR OWN ASSESSMENT, THAT THE PROSPECTS SHOULD BE GREATLY IMPROVED IF THE REQUIREMENTS SET OUT IN PARA 3 OF MY MEMORANDUM ARE MET BEFORE THE VENTURE IS LAUNCHED. NOBODY DISPUTES THESE REQUIREMENTS YET THE GIBRALTAR GOVERNMENT ARE BEING URGED TO RISK GIBRALTAR'S WHOLE ECONOMY BEFORE THEY CAN POSSIBLY BE MET.

PARAGRAPH 9(2)

IN SO FAR AS APPLIEDORE ARE CONCERNED, THEY HAVE INFORMED ME, ALBEIT WITH SOME NATURAL RESERVATIONS, THAT 'IN ASSESSING THE EFFECT OF ANY SIGNIFICANT DELAY WE WOULD BE FLEXIBLE AND SEE WHERE WE COULD HELP' AND 'OUR INTERESTS COINCIDE DIRECTLY WITH THOSE OF YOUR GOVERNMENT AND THEY REMAIN THE SAME - TO SEE A COMMERCIAL SHIP REPAIR YARD IN GIBRALTAR'. THE GIBRALTAR GOVERNMENT HAVE NO DOUBT THAT SUITABLE ARRANGEMENTS COULD BE WORKED OUT WITH APPLIEDORE IN A SPIRIT OF COOPERATION AND MUTUAL INTEREST DURING A TRANSITIONAL PERIOD.

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PARAGRAPH 9(3)

AS TO A HYBRID ORGANISATION, I FORWARD WITH THIS MESSAGE, FOR EASE OF REFERENCE, AN EXTRACT FROM A CONSULTANTS REPORT (PEIDA) WHICH OUTLINES THE MANNER IN WHICH THE COMMERCIAL OPERATORS WOULD WORK SIDE BY SIDE WITH MOD MANAGEMENT. I HAVE NO DOUBT THAT, WITH GOOD WILL, A SATISFACTORY WORKING ARRANGEMENT WOULD BE ACHIEVED.

PARAGRAPH 9(4)

I HAVE ALREADY EXPRESSED, IN PARAGRAPHS 3 AND 4 OF MY MEMORANDUM, OUR CONVICTION THAT ONLY WHEN THE NECESSARY SKILLS AND EQUIPMENT ARE AVAILABLE WILL A COMMERCIAL DOCKYARD STAND ANY CHANCE OF SUCCESS. WE CANNOT UNDERSTAND HOW IT COULD BE OTHERWISE.

2. I HAVE REPORTED TO MY COLLEAGUES ON OUR MEETINGS IN LONDON AND WE HAVE HELD LENGTHY DISCUSSIONS SINCE MY RETURN. WE HAVE GIVEN THE MOST CAREFUL THOUGHT TO ALL THE POINTS IN YOUR MESSAGE BUT CANNOT IN CONSCIENCE AGREE TO PUT THE WHOLE OF GIBRALTAR'S ECONOMY AT RISK. AT THE SAME TIME, WE REITERATE OUR READINESS TO ENTER POSITIVELY AND IMMEDIATELY INTO A SENSIBLE COMMITMENT IF WE ARE GIVEN A REASONABLE CHANCE TO MAKE IT SUCCEED EVEN THOUGH THE GENERAL ECONOMIC EFFECTS AND UNEMPLOYMENT IN PARTICULAR WOULD STILL BE SEVERE.

3. WE EARNESTLY URGE AND REQUEST YOU TO RECONSIDER OUR PLEA, BEARING IN MIND IN PARTICULAR THE POLITICAL IMPLICATIONS AND THE OVERALL EFFECTS ON THE ECONOMY AS A WHOLE TO WHICH I HAVE DRAWN ATTENTION.

ANNEX ALFA

THROUGHOUT THE PERIOD UP TO HANDOVER, RESPONSIBILITY FOR THE MANAGEMENT OF THE DOCKYARD SHOULD REMAIN WITH MOD:

APA SHOULD BE APPOINTED AS MANAGERS DESIGNATE AND PROJECT MANAGERS/CONSULTANTS FOR THE COMMERCIAL OPERATION: AND,

WITH MOD RESPONSIBLE, APA WOULD CARRY THROUGH THE FOLLOWING FUNCTIONS:

- ESTABLISH AN APPROPRIATE LOCAL MARKETING ORGANISATION:
- THE PLANNING AND SUPERVISION OF THE REFURBISHMENT OF THE DOCKYARD TO PREPARE IT FOR COMMERCIAL OPERATION:
- ACT AS CONSULTANTS TO MOD FOR THE IMPLEMENTATION OF CHANGES IN MANAGEMENT, FINANCIAL AND PRODUCTION PRACTICES NECESSARY TO PREPARE THE DOCKYARD FOR COMMERCIALISATION:
- MANAGE SOME INITIAL COMMERCIAL WORK, ON BEHALF OF MOD, INCLUDING COMMERCIAL ASPECTS OF THE BUSINESS SUCH AS ESTIMATION AND BILLING AND THE COORDINATION OF PRODUCTION:

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- COMMENCE THE TRAINING PROGRAMMES REQUIRED FOR COMMERCIALISATION:
- REVISE MATERIAL M PROVISIONING AND ACCOUNTING PROCEDURES:
- NEGOTIATE NEW CONDITIONS OF EMPLOYMENT TO TAKE EFFECT ON HAND OVER FROM MOD: AND,
- ESTABLISH AN APPROPRIATE MANAGEMENT STRUCTURE TO TAKE EFFECT ON HANDOVER FROM MOD

THESE TRANSITIONAL ARRANGEMENT WOULD REQUIRE THAT NAVAL WORK SHOULD CONTINUE TO BE PLACED IN GIBRALTAR OVER A PERIOD LONGER THAN THAT ENVISAGED BY HMG AND WOULD CREATE FURTHER EXPENSE IN THAT THE COSTS OF THIS EXTENDED PROJECT PERIOD WOULD NEED TO BE MET BY HMG. NEVERTHE LESS, SUCH TRANSITIONAL ARRANGEMENT WOULD ALLOW EASIER ACCEPTANCE OF THE PRINCIPLE OF COMMERCIALISATION, ALLOW THE PLANNING AND NEGOTIATION FO THE COMMERCIAL FUTURE IN A MORE FAVOURABLE ENVIRONMENT AND WOULD NOT COMPROMISE THE ESSENTIAL REQUIREMENTS FOR UNDERTAKING COMMERCIAL WORK.

BT

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Prime Minister

Gibraltar

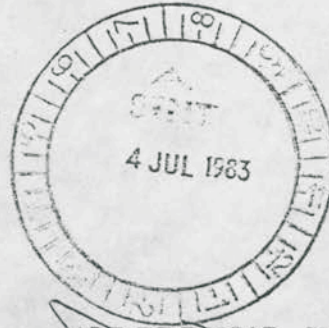
The Governor's initially brief optimistic report is not borne out by Hassan's reply to your message (bold attached).

2. Jan Stewart will be in Gibraltar tomorrow. I suggest we now wait to see how he gets on.

A.D.C. $\frac{4}{7}$.

GIBRALTAR LTD

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FM GIBRALTAR 031930Z JUL 83
 TO FLASH FCO TEL NO PERSONAL 80 OF 3 JUL 83
 AND FLASH MODUK

MY TEL NO PERSONAL 79: GIBRALTAR DOCKYARD

1. I SPOKE TO HASSAN THIS EVENING FOLLOWING THE DELAYED MEETING OF THE COUNCIL OF MINISTERS. HE WELCOMED THE VISIT BY MR STEWART AND HOPED THAT THIS COULD TAKE PLACE ON TUESDAY/WEDNESDAY AS OPPOSED TO

1. I SPOKE TO HASSAN THIS EVENING FOLLOWING THE DELAYED MEETING OF THE COUNCIL OF MINISTERS. HE WELCOMED THE VISIT BY MR STEWART AND HOPED THAT THIS COULD TAKE PLACE ON TUESDAY/WEDNESDAY AS OPPOSED TO MONDAY/TUESDAY IN ORDER TO ALLOW HIM TO RESPOND TO THE PRIME MINISTER'S TELEGRAM (YOUR TEL NO PERSONAL 49). THIS MESSAGE IN REPLY SHOULD BE AVAILABLE FOR TRANSMISSION TOMORROW, 4 JULY. AS A RESULT OF TELEPHONE EXCHANGES WITH MOD I WAS ABLE TO SAY THAT I THOUGHT THIS TIMING WAS THE MORE ATTRACTIVE TO MR STEWART.

2. WALLACE HAS TOLD NEILSON IN CONFIDENCE (WHICH PLEASE PROTECT) THAT THE COUNCIL OF MINISTERS WERE STILL STRONGLY OPPOSED TO COMMERCIALISATION ON THE TERMS PRESENTLY OFFERED. HASSAN, HOWEVER, WAS IN BUOYANT MOOD WHICH LEADS ME TO THE CONCLUSION THAT THERE IS STILL ALL TO PLAY FOR.

3. HASSAN RECOGNISED THAT ISOLA AND BOSSANO MIGHT WELL WISH TO SEE MR STEWART BUT UNDERLINED THAT THE PACKAGE CURRENTLY ON OFFER WAS A MATTER BETWEEN THE GIBRALTAR AND BRITISH GOVERNMENTS AND SHOULD NOT BE DIVULGED TO OTHERS.

4. I SHALL WORK WITH HASSAN TOMORROW ON A PRESS LINE FOR MR STEWART'S VISIT BUT IT SEEMS CLEAR THAT THE MAJOR THEME SHOULD BE ONE OF THE CONTINUATION OF CONSULTATIONS LAST MARKED BY THE CHIEF MINISTER'S VISIT TO LONDON.

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