

USofS(DP) 8/9

NOTE OF A MEETING BETWEEN THE PARLIAMENTARY UNDER-SECRETARY OF STATE FOR DEFENCE PROCUREMENT, MR IAN STEWART MP AND THE COUNCIL OF MINISTERS OF THE GOVERNMENT OF GIBRALTAR

Place: GOVERNMENT SECRETARIAT BUILDING, GIBRALTAR

Time: 1515 hours 5 JULY 1983

Those present:

UK

Ian Stewart MP - US of S(DP)
 D C Wilson Esq - Head of SED, FCO
 T Cox Esq - Head of MNED, ODA
 J E White Esq - Head of CFS Coord(N), MOD
 I R Lee Esq - PS/US of S(DP)

Government of Gibraltar

Sir Joshua Hassan - Chief Minister
 The Hon A J Canepa - Minister for Economic Development & Trade
 The Hon R G Wallace - Financial and Development Secretary
 The Hon M K Featherstone - Minister for Public Works with responsibility for traffic
 The Hon H J Zammit - Minister for Tourism & Sport with responsibility for Postal Services
 The Hon Major F J Dellipiani ED - Minister for Housing, Labour and Social Security
 The Hon Dr R G Valarino - Minister for Municipal Services
 The Hon J B Perez - Minister for Education and Health
 Mr J L Pitaluga OBE - Administrative Secretary
 Mr E Montado - Economic Adviser

1. Opening the meeting, the Chief Minister welcomed Mr Stewart to Gibraltar and briefly mentioned the background of his own talks in London and the Prime Minister's subsequent message and offer to send Mr Stewart to Gibraltar. The Chief Minister stressed that he saw the purpose of the meeting and Mr Stewart's visit as one of clarification: no one should be able to say that there had been lack of will on either side to understand the issues and the other's position.
2. In response, Mr Stewart thanked the Chief Minister for his welcome and said he was glad to be back in Gibraltar, where he had not been since National Service. Mr Stewart referred to the moves that HMG had made to respond to the Gibraltar Government's concerns, particularly in the further six months deferment of closure of the naval dockyard that had been offered by the Prime Minister in London. He agreed that there were still areas to clarify and stressed

that the overriding concern was to find the best solution for the future of Gibraltar. Britain's commitment to Gibraltar was not in doubt. The British Government wished to work together with the Gibraltar Government to help it overcome the problems it had had in the recent past. He would comment on matters relating to the dockyard but would first listen to the Council of Ministers.

3. The Council of Ministers then spoke in turn.

4. The Financial and Development Secretary, Mr Wallace read a prepared note, a copy of which is attached. The Chief Minister reinforced the points on border restrictions and how they worked to the detriment of the Gibraltar economy. Gibraltarians could go and spend freely in Spain but Spaniards could not spend freely in Gibraltar.

5. The Minister for Public Works, Mr Featherstone, said that commercialisation of the dockyard was not completely unattractive but that now, with a world recession, was bad timing. The Peida Report had envisaged five years of support for a new dockyard from naval/Royal Fleet Auxiliary (RFA) work at a total cost of £29 million. The current offer was close to this in money terms but not in timescale. He did not believe a clean break between naval and commercial operation was necessary. A transitional period would ease the problems.

6. In discussion it was established that the 5-year period referred to stemmed from the original Peida Report and that this did not figure in the Appledore proposals.

7. The Minister for Tourism and Sport, Mr Zammitt, said that he too favoured a transitional period as opposed to a clean break. During the transition Gibraltar wished to stimulate private sector investment and tourism. The Chief Minister intervened to explain how the border restrictions impeded progress in this area. British tourists on the Costa del Sol were not permitted to enter Gibraltar on day trips. If border restrictions were lifted banks would also be interested in the tax advantages of locating in Gibraltar.

8. Resuming, Mr Zammitt said that he felt the proposals the Chief Minister had brought to London were reasonable. The London talks had concentrated too much on the dockyard and not on the overall economic outlook.

9. Mr Stewart responded to this by saying that HMG had certainly not intended to give this impression. They were keenly aware of the wider issues. The British Government supported the commercialisation proposals because they offered the best prospect of playing a central role in Gibraltar's future economy. The support that was being offered to get the commercial dockyard going should not be underestimated. Both in terms of money and in lands and assets it was a very substantial package. The other offers of aid to Gibraltar had been made against the background of a closed border. Our commitment in this context could not be unconditional

since if the border were to open a completely new set of circumstances would obtain. If the border were opened after commercialisation, however, the commitment to commercialisation would remain: the border opening would be an added bonus.

10. Mr Stewart said that there appeared to be among the Council of Ministers an impression that on closure of the naval dockyard there would be a lacuna. We did not expect that. Work would be spread as flexibly as we could manage it and the yard should be able to start work on RFAs immediately.

11. The meeting then discussed the subject of the transitional period. The Chief Minister said that the offer of 6 months deferment was not precisely related to the two-year transitional period they sought. They were not seeking simple deferment but a genuine mechanism for transition. Mr Cox of ODA said that in a sense the transition had already started and could accelerate as soon as the Government of Gibraltar was content to proceed and A&P Appledore (APA) got the agreement they sought on improved working practices. The Chief Minister supported by the Minister for Economic Development and Trade explained that APA were not waiting for a sign from them; they were waiting for progress with the unions. But the Gibraltar Government could not 'deliver' the unions. Mr Cox acknowledged this but suggested that endorsement of the commercialisation proposals by the Gibraltar Government would do much to defuse union objections.

12. The Minister for Housing, Labour and Social Security, the Hon Major F J Dellipiani, then delivered what can only be described as a long tirade. He rejected the comparison of Gibraltar with Chatham. The scale of problem in Gibraltar was totally different. There was nowhere else for the workforce to go and they did not receive the same level of unemployment benefit. The dockyard had been running down for 30 years as part of a deliberate policy. The only way to convince the rank and file of the workforce that commercialisation was viable would be to offer a two-year transitional period. He repeated the point that the world recession made this an inauspicious time to be setting up a new commercial dockyard.

13. The Minister for Municipal Services, Dr Valarino, agreed that a two-year transition was the key to gaining the workforce's acceptance of the plan. He was also concerned at the broader economic outlook and asked what would happen if the support on offer was not enough. If the £28 million capital investment and working capital package proved to be insufficient, where would extra money come from? Mr Stewart replied that this figure had been arrived at after much study. There was no reason to doubt it. On operating losses, one should remember that the £28 million had been framed on a basis of assured workload that was lower than what was now on offer. Initial losses should therefore be lower than had been allowed for.

14. The Minister for Education and Health, Mr Perez, spoke next. He was not convinced that commercialisation was viable and did not believe that the offer to consult the Gibraltar Government contained in the 1981 Defence White Paper (Cmnd 8288) had been fulfilled. He also believed that a two-year period was necessary during which to diversify the Gibraltar economy.
15. The Minister for Economic Development and Trade then summed up the remarks of his colleagues and repeated the comment that too much time had been spent talking specifically about the dockyard. They recognised that the British Government saw its offer as generous. They felt strongly however that they needed two years for a dignified transition of the dockyard to commercial operation and for diversification of the economy.
16. The meeting next discussed the position of the trade unions and the importance the two-year transitional period would have for them. The Council of Ministers was agreed that Joe Bossano, the Socialist Leader and trade union leader was the key to union attitudes but they offered no solutions to the problem of the union's current unwillingness to talk with APA.
17. The Head of CFS Coord(N), MOD, pointed out that the cyclical nature of the ship repair industry might suggest that now was a good time to get into the game. The yard might then be in a position to respond an upturn early. He also stressed the generous nature of the redundancy terms.
18. Having listened to all the points that had been made by the Council of Ministers Mr Stewart then gave an account of the UK offer and how it was intended to meet the Gibraltarians' concerns. The first stage of the process was simply acceptance that the naval dockyard was to close and that commercialisation could go ahead. HMG was well aware of the wider economic questions and had made proposals on land, housing and so forth but it was the proposals on the dockyard itself and the dockyard's future viability that were central to the economy.
19. Mr Stewart covered the timing of handover, the package of support measures and the question of transition. On timing the earliest date was commercially the best. The promise of naval work made sense now but the same conditions might not exist in the future. HMG nevertheless recognised the Gibraltar Government's anxieties and the Prime Minister had therefore offered a further 6 months before closure (ie to 30 June 1984).
20. Mr Stewart referred to the measures listed in the Chief Minister's aide memoire. He said that HMG was anxious to move ahead on them rapidly and to help in every way possible. The offer of assistance from ODA did however depend on a satisfactory labour charter being agreed between the workforce and APA.
21. Mr Stewart then described the spread of work on RFAs and RMAF vessels spreading to 1987. The substance of transition was already present in our offer though perhaps not described as such.

22. The Chief Minister asked why, if work was to be guaranteed on RFAs etc to a high proportion of available capacity, was it necessary for there to be large redundancies and for the commercial dockyard to start with only 300 men. The Financial and Development Secretary explained that it was a practical problem of retraining and of refurbishing No 1 dock. Output would be restricted during the first few months of operation. Mr Stewart pointed out that the figures for APA's staff requirements during the first year had been calculated before the latest HMG offer to increase work to a total of £14 million over three years and should therefore be treated with caution.

23. In answer to the question as to why the yard should not run on a naval yard if so high a proportion of its first couple of years' work was to be naval Mr Stewart explained that the assurance on RFA work was meant to demonstrate a commitment to the success of the commercial venture. MOD could be flexible on phasing to try to help APA.

24. The meeting concluded with an exchange of pleasantries at 1745 hours.

CONFIDENTIAL

NOTE BY THE FINANCIAL AND DEVELOPMENT SECRETARY OF THE GIBRALTAR GOVERNMENT

ECONOMIC CONSEQUENCES OF CLOSURE

The closure of the Dockyard, setting aside the obvious serious effect on income and employment, will result in a change in the structure of the economy of Gibraltar. It will become an economy subject to international market forces.

2. To be able to sustain these forces the economy must be soundly based. For this it requires a substantial measure of diversification. This requires time, land and money.

3. We need the time:-

a) to absorb the impact of closure and the build-up of commercial work. The impact will be:-

- i) a contraction in the economy of some 15% in GNP;
- ii) an increased level of unemployment which will cost the Budget some £4m (10%) a year in the formative years;
- iii) inability to borrow for at least 2 years until the project has proved itself. This will throw an immediate burden of £3m on the Consolidated Fund and cause a serious cash flow position for the Government in the first quarter of 1984. Further the Government would be unable to fund any capital works for at least 2 years;
- iv) an increased reluctance by the private sector to fund any new investment.

b) to counter the drain on the economy caused by the partial and discriminatory opening of the frontier. The cost of this to the economy is some £5m in GNP (7%) and:-

- loss of revenue £2m (5%)
- loss of jobs 300 (3%);

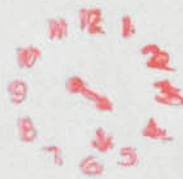
./...

CONFIDENTIAL

c) in consultation with the Ministry of Defence to earmark development sites currently occupied for defence purposes which would be immediately attractive for development by private investment. This would need to be done within the agreed time scale for deferment of the closure of the Naval Dockyard.

4. The above emphasises the advice from the Financial and Economic Consultant to the project, who was retained by ODA on behalf of the Government, that the project is likely to require a further call on public funds which could amount to an additional £10m either in the form of capital or in naval work.

1111 2 JUL 1983



CONFIDENTIAL



USofS(DP) 8/9

PARLIAMENTARY UNDER-SECRETARY OF STATE
~~FOR DEFENCE FOR THE ROYAL AIR FORCE~~
for Defence Procurement

A.S.C. 12/7

h.a.

APS/Secretary of State

Copy to: PS/Minister(AF) Head of DS12
 PS/Minister(DP) Head of CFS Coord (N)
 PS/US of S(AF) Head of Defence Lands
 AUS(PL) Head of Southern European Dept, FCO
 AUS(FS) Head of MNED, ODA
 AUS(D STAFF)

US OF S(DP) VISIT TO GIBRALTAR 5/6 JULY 1983

I attach a record of the main meeting between US of S(DP) and the Government of Gibraltar during Mr Stewart's visit last week.

2. I am also sending copies of this to the Private Secretaries of the members of OD.

12 July 1983

I R LEE
, PS/US of S(DP)

CONFIDENTIAL