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FOLLOWING FROM PRIVATE SECRETARY TO MR STEWART. YOUR TELS NOS
PERSONAL 48 AND 49: GIBRALTAR DOCKYARD.

1. DURING TODAY AND YESTERDAY MR STEWART HAS HAD THREE SEPARATE MEETING WITH HASSAN AND A LONG SESSION WITH THE COUNCIL OF MINISTERS. HE EXPLAINED IN DETAIL OUR PACKAGE OF PROPOSALS AS OUTLINED IN SECOND TUR. HE ALSO LISTENED TO THE VIEWS OF GIBRALTAR MINISTERS. IN ADDITION HE MET BRIEFLY WITH ISOLA AND BOSSANO.
2. GIBRALTARIAN CONCERNS, AS EXPRESSED BY THE COUNCIL OF MINISTERS, FOCUSED ON THE FOLLOWING POINTS:
 - A. EFFECT OF DOCKYARD CLOSURE ON THE GENERAL STATE OF THE ECONOMY IN THE CONTEXT OF DAMAGE ALREADY SUFFERED BY PARTIAL OPENING OF FRONTIER.
 - B. FEAR THAT A WEAKENED ECONOMY WOULD ENCOURAGE SPANISH INTRANSIGENCE.
 - C. DIFFICULTY OF GETTING THE UNIONS TO AGREE TO COMMERCIALISATION AND NEW WORKING PRACTICES, COUPLED WITH POLITICAL ANXIETIES ABOUT BOSSANO.
 - D. NEED FOR THE COMMERCIAL YARD TO BE FULLY OPERATIONAL (WITH MODERNISED EQUIPMENT AND TRAINED LABOUR FORCE) BEFORE BEGINNING OPERATIONS.
 - E. DOUBTS ABOUT THE VIABILITY OF A COMMERCIAL OPERATION PARTICULARLY IF STARTED DURING A SLUMP IN THE WORLD SHIPPING MARKET.
3. MR STEWART EXPLAINED THAT OUR PROPOSALS ENVISAGED A PERIOD OF A YEAR FROM NOW (TO 30 JUNE 1984) IN WHICH, IF GIBRALTAR GOVERNMENT COMMITTED ITSELF FULLY TO COMMERCIALISATION AND WHEN SATISFACTORY LABOUR ARRANGEMENTS HAD BEEN AGREED WITH THE WORK FORCE, MODERNISATION OF THE DOCKYARD AND TRAINING OF THE LABOUR FORCE COULD GO AHEAD BEFORE THE VESTING DATE. THEREAFTER THERE WOULD BE A FURTHER PERIOD OF TWO YEARS WHEN THE COMMERCIAL DOCKYARD WOULD HAVE A VERY FULL ASSURED PROGRAMME OF NAVAL WORK AND WORKING CAPITAL WOULD BE PROVIDED BY ODA. ONLY AT THE END OF A THIRD YEAR (IE JULY 1987. FOUR YEARS FROM NOW) DURING WHICH THERE WOULD HAVE BEEN A TAPERED DOWN WORK PROGRAMME FROM MOD, WOULD THE COMMERCIALISED YARD FINALLY HAVE TO STAND FIRMLY ON ITS OWN FEET. IN ADDITION, THE GENERAL PROBLEMS OF THE ECONOMY WERE BEING DEALT WITH BY A DEVELOPMENT AID PROGRAMME OF £13M, AND THE PROSPECT OF

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A NEW AGREEMENT ON TRANSFER OF SURPLUS DEFENCE LANDS AND A REVIEW OF LANDS USED BY THE MOD. THESE PROPOSALS WENT A VERY LONG WAY TO MEET GIBALTARIAN CONCERNS AS IN A. AND C. IN PARA 2 ABOVE. ON B. THE SPANIARDS WOULD BE IMPRESSED BY THE SCALE OF BRITISH SUPPORT TO GIBALTAR. THEY COULD NOT POSSIBLY SEE THIS AS A WEAKENING OF LINKS UNLESS THE GIBALTARIANS THEMSELVES CLAIMED THAT THIS WAS SO.

4. IT EMERGED FROM THE MEETING WITH THE COUNCIL OF MINISTERS THAT GIBALTAR'S PROPOSAL FOR A TWO YEAR DEFERMENT AND TRANSITIONAL PERIOD WAS SEEN BY MINISTERS AS A WAY OF MEETING THEIR VARIOUS CONCERNS BUT WAS NOT WELL THOUGHT OUT IN ITS APPLICATION OR RELEVANCE TO PARTICULAR POINTS BROUGHT UP IN DISCUSSION.

5. IT WAS LEFT THAT WE WOULD PRODUCE RAPIDLY AFTER OUR RETURN TO LONDON A WORKING PAPER OUTLINING WHAT THE EFFECT OF THE LATEST BRITISH PROPOSALS WOULD BE IN TERMS OF DEVELOPMENTS IN GIBALTAR OVER THE NEXT FOUR YEARS. THIS WOULD FORM THE BASIS OF A FURTHER ROUND OF DISCUSSIONS AT MINISTERIAL LEVEL.

COMMENT

6. ALTHOUGH THERE IS A LARGE ELEMENT OF FEAR OF THE UNKNOWN IN THE GIBALTAR REACTION, CLOSURE OF THE DOCKYARD UNDOUBTEDLY INVOLVES A MAJOR SHAKE UP OF THE GIBALTAR ECONOMY.

7. HASSAN GAVE THE IMPRESSION OF WISHING TO REACH A SOLUTION ALTHOUGH AT A LEISURELY PACE. BUT IT IS NOT POSSIBLE TO BE SO CERTAIN THAT THIS WILL BE THE INTENTION OF HIS MINISTERS. NOR IS IT CLEAR THAT HASSAN HIMSELF WILL REALLY BE PREPARED TO TAKE A LEAD ON ANYTHING SHORT OF THE PROPOSALS GIBALTAR HAVE ALREADY PUT FORWARD. EVEN IF HE REACHED AGREEMENT ON A BASIS HE FOUND SATISFACTORY, THERE IS STILL A STRONG POSSIBILITY THAT HE WOULD WISH TO RENEW HIS MANDATE BEFORE CARRYING THE PROPOSALS INTO EFFECT.

8. WE ARE STILL FAR APART ON THE BASIC CONCEPT OF WHETHER IT IS ESSENTIAL TO HAVE AN EARLY AND CLEAR CUT CHANGEOVER TO COMMERCIAL MANAGEMENT OR, AS GIBALTAR WANTS, A LONG TRANSITIONAL PERIOD WITH THE DOCKYARD CONTINUING UNDER MOD CONTROL. SINCE GIBALTAR'S ARGUMENTS ARE AS MUCH POLITICAL AND EMOTIONAL AS RATIONAL, IT IS HARD TO IDENTIFY ANY PARTICULAR ISSUE ON WHICH A FURTHER MOVE BY US WOULD ENABLE A COMPROMISE AGREEMENT TO BE REACHED. MR STEWART WILL COMMENT FURTHER ON THE WAY AHEAD, AND ON THE PROSPECTS FOR A FURTHER MINISTERIAL MEETING ON HIS RETURN TO LONDON

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