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TO IMMEDIATE GIBRALTAR

TELEGRAM NUMBER 34 OF 8 JULY

Am 12/7
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GIBRALTAR DOCKYARD: PHASING IN OF COMMERCIAL OPERATIONS

MIPT:

WORKING PAPER BY OFFICIALS (THIS PAPER SUMMARISES THE UK POSITION AS EXPLAINED ORALLY BY MR STEWART DURING HIS VISIT TO GIBRALTAR)

INTRODUCTION

1. HMG ARE KEENLY AWARE OF THE CONCERNS OF THE GIBRALTAR GOVERNMENT AS EXPRESSED DURING THE CHIEF MINISTER'S VISIT TO LONDON AND SUBSEQUENTLY DURING THE VISIT OF MR STEWART TO GIBRALTAR. HMG HAVE RESPONDED IN A CONSTRUCTIVE MANNER TO THE PROPOSALS ADVANCED BY THE CHIEF MINISTER CONCERNING A TRANSITIONAL PERIOD FOR CHANGEOVER OF THE DOCKYARD FROM NAVAL TO COMMERCIAL OPERATION. WE RECOGNISE THAT THESE PROPOSALS WERE FRAMED SO AS TO GIVE TIME FOR OTHER READJUSTMENTS TO BE ACHIEVED IN GIBRALTAR'S ECONOMY AND INFRASTRUCTURE AND THAT SUCH READJUSTMENTS ARE NECESSARY IF THE CHANGE IN DOCKYARD OPERATIONS IS TO BE MANAGED WITHOUT UPHEAVAL.

2. DETAILS OF MEASURES PROPOSED BY HMG TO SUPPORT THE ESTABLISHMENT OF A COMMERCIAL DOCKYARD HAVE ALREADY BEEN PASSED TO THE GIBRALTAR GOVERNMENT AND INCLUDE IN PARTICULAR A NEW OFFER TO DELAY CLOSURE

OF THE NAVAL DOCKYARD UNTIL 30 JUNE 1984 AND AN EXTRA POUNDS STERLING 3 MILLION

WORTH (TOTAL NOW POUNDS STERLING 14 MILLION)

OF ASSURED WORK ON ROYAL FLEET

AUXILIARIES. IF THE GIBRALTAR GOVERNMENT AGREE TO THE ESTABLISHMENT OF A COMMERCIAL DOCKYARD, AND TO GIVE IT THEIR FULL SUPPORT, THESE PROPOSALS WILL PROVIDE A PERIOD BETWEEN NOW AND JUNE 1987, WITHIN WHICH THERE IS A YEAR FOR CERTAIN PREPARATIONS TO TAKE PLACE BEFORE CLOSURE OF THE NAVAL DOCKYARD AND SUBSEQUENTLY A FURTHER THREE YEARS DURING WHICH THE COMMERCIAL DOCKYARD WOULD

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STILL HAVE VERY SUBSTANTIAL SUPPORT (SEE PARA 7 BELOW). DURING EACH OF THESE YEARS BETWEEN POUNDS STERLING 0.5 M AND POUNDS STERLING 1 M OF WORK WOULD ALSO BE AVAILABLE ON SMALLER MOD CRAFT (E.G. RMAS): SUCH WORK WOULD CONTINUE TO BE AVAILABLE FOR THE FORESEEABLE FUTURE. PROVIDING THAT AGREEMENT IS REACHED WITH THE WORKFORCE, SATISFACTORY TO APA AND TO ODA, MODERNISATION OF THE DOCKYARD FACILITIES AND TRAINING OF THE LABOUR FORCE COULD BOTH BEGIN IN ADVANCE OF THE TRANSFER TO COMMERCIAL MANAGEMENT. THUS THE WORKFORCE, AND THE NEW COMMERCIAL MANAGEMENT, WOULD HAVE A LENGTHY PERIOD IN WHICH TO ADJUST TO OPERATING AS A COMMERCIAL ORGANISATION AND TO INCREASE THEIR EFFICIENCY WITH AN ASSURED FLOW OF WORK PROVIDED BY THE MINISTRY OF DEFENCE.

3. THE EXISTENCE OF A THREE YEAR RUNNING-IN PERIOD (1 JULY 1984-30 JUNE 1987) MEETS THE CONCERN EXPRESSED BY GIBRALTAR MINISTERS ABOUT LAUNCHING A COMMERCIAL ENTERPRISE DURING A PERIOD OF RECESSION IN THE WORLD SHIPPING INDUSTRY. WE ARE PREPARED TO LOOK AT THE PHASING OF THE POUNDS STERLING 14 MILLION OF MOD WORK AND ARRANGE IT AS FAR AS POSSIBLE TO SUIT THE NEEDS OF THE COMMERCIAL YARD. BY THE TIME THE NEW COMMERCIAL DOCKYARD IS STANDING ENTIRELY ON ITS OWN FEET, IT WILL BE READY TO SEIZE THE MARKET OPPORTUNITIES WITH A TRAINED WORKFORCE AND AN ESTABLISHED COMMERCIAL MANAGEMENT.

4. DURING THE FOUR YEAR PERIOD LEADING UP TO A FULLY COMMERCIAL DOCKYARD, OTHER FORMS OF ASSISTANCE ARE ALSO BEING MADE AVAILABLE TO THE GIBRALTAR GOVERNMENT. THEY GO A LONG WAY TOWARDS MEETING THE CONCERNS OF GIBRALTAR MINISTERS ABOUT THE WIDER EFFECT OF CLOSING THE NAVAL DOCKYARD ON THE GIBRALTAR ECONOMY. ODA IS PROVIDING POUNDS STERLING 13M OF DEVELOPMENT AID FUNDS IN SUPPORT OF GIBRALTAR'S PRESENT DEVELOPMENT PLAN. PROJECTS APPROVED SO FAR FOR FINANCING FROM THIS GRANT INCLUDE THE CONSTRUCTION OF A CAUSEWAY TO REPLACE THE OLD VIADUCT, THE INSTALLATION OF TWO DISTILLATION PLANTS AND OTHER INFRASTRUCTURE PROJECTS, MAINLY IN THE WATER AND SEWERAGE SECTORS. A FURTHER MAJOR PROJECT, NOW UNDER CONSIDERATION, IS

AN EXTENSION TO THE POWER STATION. THE PROPOSALS TO ACCOMPANY THE CHANGE-OVER TO A COMMERCIAL DOCKYARD ALSO ENVISAGE A NEW AGREEMENT ON THE TRANSFER OF SURPLUS DEFENCE LANDS TO THE GIBRALTAR GOVERNMENT, AND A REVIEW OF PRESENT DEFENCE LAND HOLDINGS IN GIBRALTAR WHICH WILL ACCOMPANY A GIBRALTAR GOVERNMENT SURVEY OF LAND USE AND WILL INVESTIGATE THE POSSIBILITY OF RELEASING PROPERTY NOT ESSENTIAL FOR DEFENCE.

5. IT SHOULD BE NOTED FURTHERMORE THAT THE POUNDS STERLING 28M SUPPORT FROM ODA WAS DECIDED ON THE BASIS OF A SMALLER VOLUME OF ASSURED NAVAL WORK THAN THE POUNDS STERLING 14M NOW OFFERED. THE PROVISION FOR WORKING CAPITAL AND FUNDS TO MEET INITIAL OPERATING LOSSES SHOULD BE SEEN IN THIS CONTEXT.

6. EFFICIENT WORKING PRACTICES ARE A KEY ELEMENT IN THE SUCCESS OF THE NEW COMMERCIAL VENTURE. A SATISFACTORY AGREEMENT ON WORKING PRACTICES IS AN ESSENTIAL PRE-REQUISITE FOR THE INVESTMENT OF ODA FUNDS IN THE MODERNISATION OF THE DOCKYARD AND FOR SUPPORT OF THE COMMERCIAL VENTURE IN THE FIRST TWO YEARS OF ITS OPERATION. ALTHOUGH THERE IS NEED FOR AN EARLY AND CLEAR-CUT CHANGE FROM MANAGEMENT OF THE DOCKYARD BY THE MINISTRY OF DEFENCE TO THE NEW MANAGEMENT AND WORKING PRACTICES WHICH WILL COME IN WITH THE ESTABLISHMENT OF A COMMERCIAL OPERATION, THE SUPPORT AND PREPARATION ALREADY REFERRED TO SHOULD ENABLE INTERRUPTION OF ACTIVITY IN THE YARD TO BE KEPT TO THE MINIMUM.

7. IN SUM, THE BRITISH PROPOSALS AMOUNT TO A PHASED PROGRESS LEADING UP TO FULL COMMERCIALISATION. THEY COVER A FOUR-YEAR PERIOD FROM NOW. THE DETAILS ARE AS BELOW:

PHASING

- I) JULY 1983-30 JUNE 1984
- A) FIRM DATE ANNOUNCED FOR CLOSURE OF NAVAL DOCKYARD WITH DECLARATION THAT 'STATE OF REDUNDANCY' WILL EXIST FROM EG 15 NOVEMBER (IE FROM THAT DATE INDIVIDUALS CAN OPT FOR REDUNDANCY PRIOR TO DOCKYARD CLOSURE).
- B) APA PREPARATORY WORK CONTINUES, FUNDED BY ODA, AND PRELIMINARY WORK IS COMPLETED ON A NEW MANAGEMENT AND MARKETING

ORGANISATION FOR THE COMMERCIAL YARD.

- C) INDIVIDUAL REDUNDANCY NOTICES ISSUED EARLY IN 1984.
- D) DISCUSSION BETWEEN APA AS COMMERCIAL MANAGERS DESIGNATE AND THE WORKFORCE LEADING TO AGREEMENT ON A NEW LABOUR CHARTER PROVIDING FOR EFFICIENT COMMERCIAL WORKING PRACTICES. AS SOON AS THIS IS ACHIEVED WORK WILL BEGIN AND FUNDS BE RELEASED FOR
 - (I) SOME TRAINING IN NEW SKILLS AND TECHNIQUES: II) CAPITAL INVESTMENT IN THE CONVERSION AND MODERNISATION OF THE YARD.
- E) RECRUITMENT BY APA OF INITIAL LABOUR FORCE.
- F) NEW AGREEMENT ON DEFENCE LANDS.
- G) START REVIEW OF LAND AND HOUSES REQUIRED FOR DEFENCE PURPOSES WITH INVESTIGATION OF POSSIBLE RELEASE OF PROPERTY NOT ESSENTIAL FOR DEFENCE.
- H) CONTINUED NAVAL WORK ON PRESENT BASIS.
- I) TRANSFER OF APPROX. 200 WORKERS FROM NAVAL DOCKYARD TO NAVAL BASE.
- J) NAVAL DOCKYARD CLOSES ON 30 JUNE.
- II) JULY 1984-JUNE 1985
 - A) COMMERCIAL DOCKYARD OPENS UNDER APA MANAGEMENT. ODA ASSISTS WITH NECESSARY WORKING CAPITAL.
 - B) FULL REDUNDANCY PAYMENTS TO WORKFORCE INCLUDING THOSE BEING RE-EMPLOYED. (ESTIMATED LUMP SUM PAYMENTS ON BASIS OF EXISTING WORKFORCE: POUNDS STERLING 5 MILLION).
 - C) APA TAKE ON SOME 300 WORKERS AT THE START OF COMMERCIAL OPERATION: AN ESTIMATED 450 WORKERS TAKEN ON AFTER FOUR MONTHS.
 - D) CAPITAL WORKS FOR MODERNISING YARD COMPLETED.
 - E) ASSURED WORK AVAILABLE ON RFAS WHICH, TOGETHER WITH ADDITIONAL WORK ON MOD SMALL CRAFT, WILL PROVIDE A SUBSTANTIAL WORKLOAD FOR THE COMMERCIAL DOCKYARD (VALUE EG POUNDS STERLING 6.5 MILLION DEPENDING ON PHASING)
 - F) INTRODUCTION OF COMMERCIAL WORK AS AVAILABLE.
- III) JULY 1985-JUNE 1986
 - A) COMMERCIAL DOCKYARD CONSOLIDATES
 - B) CONTINUATION OF ASSURED WORKLOAD ON RFAS AND MOD SMALL CRAFT (VALUE EG POUNDS STERLING 5.5 MILLION, DEPENDING ON PHASING)
 - C) ODA SUPPORT FOR WORKING CAPITAL CONTINUES AS AGREED TO BE

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NECESSARY IN LIGHT OF APA PROJECT PROPOSALS.

IV) JULY 1986-JUNE 1987

A) FINAL PHASE OF CONSOLIDATING COMMERCIAL ORGANISATION

B) FINAL TAPERING OF RFA WORK PROGRAMME AND INTRODUCTION OF MORE WORK FROM THE OPEN MARKET.

C) WORK ON MOD SMALL CRAFT CONTINUES (TOTAL VALUE OF MOD WORK, INCLUDING RFAS, UP TO POUNDS STERLING 5M).

V) FROM JULY 1987

A) COMMERCIAL DOCKYARD FULLY RUN IN AND BIDDING FOR WORK ON OPEN MARKET

B) COMMERCIAL YARD ABLE TO BID ON BASIS OF FULL EQUALITY WITH UK YARDS FOR FURTHER WORK ON RFAS.

C) WORK ON MOD SMALL CRAFT CONTINUES.

D) IF COMMERCIAL YARD OPERATING SUCCESSFULLY ESTIMATED LABOUR FORCE BEING EMPLOYED OF UP TO 1.280.

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