



PM/83/51

PRIME MINISTER

Gibraltar Dockyard

1. The latest proposals from the Gibraltar Government about the closure of the naval dockyard envisage in particular:
 - (a) deferment of closure by one year, to 31 December 1984 (instead of 30 June as in our latest offer);
 - (b) arrangements for handing over to the Gibraltar Government certain prime sites at present held by the Ministry of Defence with a timetable for discussions about transfer of other land; and
 - (c) assurances that, if the commercial yard is not as successful as at present estimated, support will be provided for the Gibraltar economy.

2. The Gibraltar Government have said that, if these proposals are accepted, they in return will make an unequivocal commitment to commercialisation by 1 January 1985. They accept that there should be a clear-cut break in management between the Ministry of Defence and the commercial operator; they will make clear publicly their belief that an essential element in the success of the commercial yard will be improvements in working practices; and they accept that the ODA will require satisfactory assurances on new working practices before committing funds to investment in improving the dockyard.

/3.



3. These proposals are a marked improvement on the previous position adopted by the Gibraltar Government. They have now moved a considerable way towards accepting our views, particularly on the need for a clear distinction between MOD and commercial management.

4. Deferment of closure of the naval dockyard for a full 12 months is far from ideal from the point of view of the commercial efficiency of its successor. Either our proposal of six months deferment, or a compromise of nine months, would have been better. Nevertheless, I believe the Gibraltar Government have now gone about as far to meet us as it would be possible for their Council of Ministers to accept. Rather than continue to argue about three months more or less, I believe it would be better to accept the present proposal of a one year deferment in return for a clear cut and public commitment by the Gibraltar Government to the launching of a commercial dockyard on 1 January 1985. Their commitment should make clear publicly their acceptance that funds will only be committed on satisfactory assurances being achieved on new working practices; and that the flow of funds thereafter will depend on the maintenance of these working practices. Deferment of closure will however add to the costs both for the MOD and ODA. The MOD would wish to clarify the period which the offer of £14 millions worth of assured RFA work would then cover. So far as ODA are concerned, we will wish to discuss the implications with the Treasury.

5. On the question of future assistance to the Gibraltar economy, we must be particularly careful not to commit ourselves to open-ended support for the dockyard. To do so would not only be signing a blank cheque. It would also totally undermine any incentive to achieve commercial success.

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When OD decided in November 1982 that we would be prepared to support the establishment of a commercial dockyard, it was agreed that the scale and duration of our support must be limited. In meeting Gibraltarian concerns about possible future difficulties for their economy, we should therefore limit ourselves to saying that, if there are future difficulties, we will be prepared, in line with our policy of supporting Gibraltar during the present restrictions, to look at their whole economy and budgetary situation with a view to considering whether and, if so, what further measures of support might be necessary or justifiable.

6. On the question of transfer of MOD land, I understand that, following the discussion in Cabinet on 14 July, the Ministry of Defence have been looking urgently at the implications of the Gibraltarian request. A team of officials has today gone out to Gibraltar to work out the basis of an agreement. Michael Heseltine has suggested that Ian Stewart should himself go to Gibraltar on 20 July.

7. Time is now short. It is becoming increasingly apparent in Gibraltar that we are unable to stick to the original timetable of closure of the naval dockyard by the end of this year. Furthermore, there is advantage in finalising an agreement with the Gibraltar Government before the Summer Recess and before the Gibraltar House of Assembly also goes into recess.

A / 8. I therefore propose that, when Ian Stewart goes to Gibraltar later this week, he should not confine himself to the lands issue but should try to agree with the Gibraltar

/Government



Government, ad referendum, a complete package of proposals covering closure of the naval dockyard and the establishment of a commercial yard to take its place. To summarise, such a package would be based on agreement by the Gibraltar Government to:

- a clear commitment to commercialisation
- a clear-cut hand-over of the dockyard from naval to commercial management
- make clear publicly their acceptance that ODA funds will only be committed to investment in the commercial dockyard on satisfactory assurances being achieved on new working practices, and that the flow of funds thereafter will depend on the maintenance of these working practices.

The package could then also contain:

- agreement by HMG to 31 December 1984 as the closure date
- an agreement in principle by MOD on the lands issues (this to be adjusted in the light of discussions next week on the spot)
- if necessary, an undertaking by HMG that, if there are future difficulties for the economy, we will be prepared, in line with our policy of supporting Gibraltar during the present restrictions, to look at the whole economy and budgetary situation with a view to considering whether, and if so what, further measures of support might be necessary or justifiable.

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The MOD will wish to assess rapidly the financial implications of the 31 December 1984 closure date before final agreement is reached.

9. If all goes well, we would be in a position to approve the package after Ian Stewart's return from Gibraltar on 21 July. We could then invite Sir Joshua Hassan to London to sign the agreement early in the week beginning 25 July and announce the arrangements both in the House and the Gibraltar Assembly before the end of that week.

10. Michael Heseltine agrees with the terms of this minute. I should be grateful for confirmation that other members of OD see no objection to what I have proposed.

11. I am copying this minute to other members of OD and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

18 July 1983

CONFIDENTIAL



cc OD
CO

HL

10 DOWNING STREET

From the Private Secretary

19 July 1983

Dear Brian,

Gibraltar Dockyard

The Prime Minister has seen the minute of 18 July by the Foreign and Commonwealth Secretary on the above subject.

Mrs. Thatcher agrees with the proposals of Sir Geoffrey Howe but believes that, in his further discussions with the Gibraltar Government, Mr. Stewart should be very careful not to enter into an unacceptable commitment to future support for the dockyard. She would reluctantly accept, in the last resort and if it was essential to obtain general agreement, the wording in paragraph 8 of the Foreign Secretary's minute - namely that, if there are future difficulties for the economy, we will be prepared, in line with our policy of supporting Gibraltar during the present restrictions, to look at the whole economic and budgetary situation with a view to considering whether, and if so what, further measures of support might be necessary or justifiable. The Prime Minister would certainly not wish to enter into any firmer commitment.

I am copying this letter to the Private Secretaries to other members of OD and to Sir Robert Armstrong.

Yours ever

John Gode.

Brian Fall, Esq.,
Foreign and Commonwealth Office

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10 DOWNING STREET

Prime Minister

To agree with the
Foreign & Commonwealth
Secretary's proposals
Plan A, subject to the
views of OD colleagues

Conlon

John Clark

18/7

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

N.B.P.R.

M4/7.

FOREIGN SECRETARY

GIBRALTAR DOCKYARD

Thank you for sending me a copy of your minute of 18 July on our offer to the Gibraltar Government.

2. I confirm that I am content with the package you propose.

3. I note your sinister reference to the possibility that ODA may need to discuss its financial implications with the Treasury. ODA have of course already been provided with additional funds to meet the cost of developing the commercial yard. Any extra costs for ODA or MOD arising from the deferment of the closure of the naval dockyard should be contained within the existing programmes.

4. Copies of this minute go to the other recipients of yours.

A handwritten signature in dark ink, appearing to be 'N.L.'.

N.L.

20 July 1983

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21 JUL 1983

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DEPARTMENT OF TRADE AND INDUSTRY



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From the
Minister of State
Norman Lamont MP

Prime Minister

For information.

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign &
Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
London SW1

A.S.C. 28/7

28 July 1983

Dear Goffey

ML

GIBRALTAR

I have seen your minute of 18 July to the Prime Minister. I have also seen Ian Stewart's report of 22 July and the text of his statement in the House yesterday.

Private sector shiprepairers are rather aggrieved at the emergence of what is in effect a new, and for the time being state-supported, competitor in Gibraltar. They are particularly concerned that guaranteed work on Royal Fleet Auxiliary refits was promised the commercialised yard for a period regardless of its competitiveness, and I note that the amount has now been increased from £11m to £14m. This work is particularly valued as a base load by the UK commercial yards.

In all the circumstances I have reluctantly to agree. I should, however, like to be consulted if there is any prospect of the terms of this offer being further improved or substantially altered.

I am copying this letter to the Prime Minister, to other members of OD, to Janet Young, Timothy Raison, John Stanley, David Trefgarne and to Sir Robert Armstrong.

Norman Lamont

NORMAN LAMONT

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Gibraltar,
Alcay, P. 44



28 JUL 1983