

CONFIDENTIAL
CONFIDENTIAL

Prime Minister

①



PARLIAMENTARY UNDER-SECRETARY OF STATE
FOR DEFENCE, FOR THE ROYAL AIR FORCE
XXXXXXXXXXXXXXXXXXXXXXXXXXXX

Agree that Sir Joshua Hassan
may be invited to London to
ratify the agreement?
He knows that there is a
provisional agreement to him to

US of S(DP) 8/9/1

for Defence Procurement

see you on Tuesday.

PRIME MINISTER

A.J.C. 22/7

GIBRALTAR

1. Following further exchanges with Sir Joshua Hassan since my last visit, I went to Gibraltar again on 20/21 July. The main requirements which he had communicated were:
 - (a) deferment of closure of the naval dockyard for a year to 31 December 1984 against your offer of six months to 30 June 1984 (and the Government of Gibraltar's original request for two years to 31 December 1985);
 - (b) assurances about the future of the Gibraltar economy;
 - (c) the transfer of certain Ministry of Defence land and properties to the Government of Gibraltar.

The last of these was much the most complicated and a team of MOD officials went out on 18 July for preparatory talks.

2. It was clear from my first conversation with Hassan on Wednesday that he now wanted agreement as soon as possible, in order to give time for a further visit to London followed by an announcement and a debate in the House of Assembly before the end of next week. This would not be possible if further matters of substance had to be discussed again in London, and this meant that it was necessary to conclude the basis for an agreement before I left Gibraltar yesterday. In the event an understanding (of which a copy is attached) was signed with only minutes to spare before take-off. On balance I believe this pressure of time was to our advantage since, although it required me to make some firm commitments on defence lands more hastily than I would have wished, it also enabled us to sustain our position on many important aspects of the central issue of the Dockyard (including key provisions about working practices) and to get a number of valuable conditions written into the agreement. Under the circumstances I think the package is manageable from our point of view and is about the least that Hassan could have persuaded his Council of Ministers to accept. At one point he implied that carrying his Ministers with him was more difficult than facing the electorate.

3. On the closure date, I judged that December 1984 was the earliest that would have any serious chance of approval by the Council of Ministers, and therefore indicated that I would recommend it to you if all other outstanding matters

CONFIDENTIAL

could be resolved satisfactorily. Hassan accepted that early announcement of a state of redundancy was desirable.

Since the insistence of his Ministers on deferment of closure has always seemed to be based as much on political presentation as on the merits of the case, I asked Hassan if he would be willing to contemplate an earlier date of closure if, in the circumstances of next year, it then appeared advantageous to advance the date of changeover. He readily agreed to the inclusion of words to this effect.

4. Hassan asked for assurance of future support for the Gibraltar economy if needed. We therefore found it necessary to include a short paragraph following the wording in Geoffrey Howe's minute to you of 18 July. This strikes me as being capable of more than one interpretation, if border restrictions are lifted meanwhile, but he appeared content with it although not without having had some difficulty with his Ministers.
5. As anticipated the main difficulties in this round concerned the question of transfer of lands. On their side it is an emotional subject. Most of the best sites, especially those round the shore, are in MOD hands, and they include the best swimming and recreational facilities (Rosia Bay) as well as a prime site (Queensway) between the town and the harbour. Hassan became quite heated about the issue, saying that, in the context of Gibraltar's struggling economy, its need for tourist facilities, and the lack of amenities for its inhabitants, the privileged position enjoyed by the Services was "scandalous". In this he was echoing the sentiments which had been put to me by his political opponents on my previous visit and it is clearly a very sensitive issue. I asked the Governor for his advice about this. He said that as C-in-C he recognised the Government of Gibraltar's demands, if met, would be very unwelcome to the Services but alternative arrangements could be made which should mitigate the effect on Service morale. As Governor he felt bound to agree with much of the Gibraltarian case. I believe that such a move is inevitable sooner or later, and to delay it now would have jeopardised the prospects of a satisfactory agreement as well as generating avoidable ill-will. I therefore decided that we ought to make material commitments on some of the property about which the Government of Gibraltar felt most strongly.
6. The practical effect of this is that we would have to hand over certain sites when proposals are forthcoming for development. In the case of Queensway properties we would also need to reprovide the facilities elsewhere. For this reason, and because we had not yet had time to explore fully the implications of concentrating the naval base into a reduced area, we could not accept Hassan's request for an early conclusion to our proposed general review of defence lands, and he accepted this. He also acknowledged that the re-provision of facilities and the implementation of development plans might take some time (? = some years) to accomplish. But an early commitment was politically important.

The agreement is accordingly phrased to reflect these needs.

There is also planned to be an exchange of letters to clarify certain points of detail, but not as a pre-condition of the agreement.

7. As against our previous position, based on a deferment of the closure until 30 June 1984 and without the current proposals for lands transfer, the additional costs would be as follows:

(i) to run on the naval dockyard for a further six months, about £6½ million gross (less the output value of refits undertaken, up to say £3 million);

(ii) the cost of reproviding the facilities at present enjoyed by HMG on the Queensway site (notably the main PSA store and the NAAFI store) estimated very tentatively at £5/6 million, probably spread over several years and not beginning for some time;

(iii) the small amount in fees for A&P Appledore to retain them as consultants for the extra six months.

The last of these would be a cost to ODA, the first two to MOD.

8. I cannot pretend that this is an ideal package but set against the scale of the political problem if agreement is not reached I would recommend it. The understanding includes clear undertakings by Hassan that his Government is committed to commercialisation of the dockyard and full recognition of the need to change work practices. As we parted Hassan told me that he had instructed his Ministers to speak up positively in favour of the arrangements and I am confident that he will himself make every effort to promote them.
9. Hassan hopes to see you early next week (Tuesday?), so that he can return to Gibraltar and claim credit for the terms he has obtained. He would aim to make an announcement in the House of Assembly simultaneously with a statement to Parliament (on Wednesday or Thursday). I pointed out that I could not say whether an oral statement or a written answer would be judged most suitable in London, or who should make it, but he did not seem too much worried on this point so long as the outcome could be presented as a result of his meeting with you. I am copying this to the members of OD, Janet Young, Timothy Raison, John Stanley and David Trefgarne. If you and others agree I would suggest that an invitation for Sir Joshua to come to London to ratify the agreement is made without delay.

ls
22 July 1983

UNDERSTANDING REACHED BETWEEN THE CHIEF MINISTER OF GIBRALTAR,
SIR JOSHUA HASSAN, AND MR IAN STEWART, UNDER SECRETARY OF STATE
FOR DEFENCE, ON CLOSURE OF GIBRALTAR NAVAL DOCKYARD AND
ASSOCIATED MEASURES - 21 JULY 1983

1. As stated in the paper by officials passed to the Gibraltar Government on 8 July, Her Majesty's Government have recognised the points which have been made on the need for a deferment of the closure of the Naval Dockyard in order to allow time for diversification of the Gibraltar economy. HMG are also anxious to make a positive response to the further points made in the Gibraltar Government's subsequent paper on the role to be played in diversification by the private sector developing certain lands currently held by MOD, although these lands are currently in active use by the MOD and are not surplus to their present requirements.

2. Following detailed consultations between the two Governments agreement has been reached on the following points.

CLOSURE OF ROYAL NAVAL DOCKYARD

3. The Royal Naval Dockyard will not now close until 31 December 1984 unless both Governments agree to an earlier date.

4. In order to provide the economy and the workforce with the optimum conditions for readjustment, a state of redundancy will be declared in respect of the run down of the Royal Naval Dockyard on 1 September 1983. Redundancy notices will be issued thereafter as appropriate in individual cases.

5. Full redundancy payments will be made in accordance with

schemes in operation in Gibraltar (the terms of which are comparable with those in the UK).

ESTABLISHMENT OF A COMMERCIAL DOCKYARD

6. Following closure of the Naval Dockyard, the dockyard will re-open immediately as the Gibraltar Ship Repair Company, a commercially managed enterprise, with A&P Appledore International Limited as managers, initially, on behalf of the Gibraltar Government. There will be a clear cut break between management by the MOD and the new commercial manager.

7. Dockyard land and assets for the new commercial enterprise will be transferred to the Government of Gibraltar free of charge, who will lease them to the Gibraltar Ship Repair Company.

8. To support the establishment of the new commercial yard HMG have offered to contribute a total of up to £28 million to meet initial costs of conversion, working capital, and operating losses (if any) in the first two years of commercial operation. Funds for the project will only be committed after satisfactory assurances have been obtained from the workforce on new working practices. Such funds will however be committed as soon as these assurances are obtained and prior to closure of the Naval Dockyard. The flow of funds thereafter will depend on the maintenance of these working practices.

9. A programme of assured naval work, notably on Royal Fleet Auxiliaries, will be provided during the first three years of commercial operation. This programme will be worth £14 million at current prices.

10. In addition, during each of the same three years, work will also be available on smaller MOD craft (for example Royal Maritime Auxiliary Services harbour craft) to an approximate annual value of between £0.5 million and £1 million. Such work on smaller craft will continue beyond the three year period and for the foreseeable future at a level to be agreed in due course between the Ministry of Defence and the Gibraltar Ship Repair Company.

11. The Ministry of Defence will provide on three year leases to the Gibraltar Ship Repair Company 46 houses or apartments for use by expatriate management staff of the new commercial dockyard.

12. During the time leading up to the establishment of a commercial yard, A&P Appledore International Limited will continue to be engaged on a consultancy basis funded by ODA so that preparations for commercialisation are not interrupted.

Discussions between Appledores, as commercial managers designate, and the workforce are to be started as soon as possible.

PUBLIC ANNOUNCEMENT

13. The proposals relating to closure of the Royal Naval Dockyard and the establishment of a commercial enterprise and to the question of lands will be announced simultaneously in Parliament and the House of Assembly on a date to be agreed. In making their announcement and in subsequent discussion of the issue, the Gibraltar Government will make it clear that, after consultation at the highest level in Britain, they have achieved the maximum possible deferment of the date for closing the Royal Naval Dockyard and that, in their view, no further deferment is

possible; that an essential element in the success of a commercial dockyard is the achievement of commercial working practices on which early discussions should be held; that agreement on working practices leading to a new labour charter will be necessary before ODA funds are committed; and that the continued flow of funds will depend on the maintenance of these practices.

TRANSFER OF DEFENCE LANDS

14. The terms of a new agreement on the transfer of defence land (in terms more favourable to the Gibraltar Government than those that now exist) have been concluded with the Government of Gibraltar and will be formally ratified shortly.

15. It has also been agreed that in order to provide early assistance towards economic development and diversification a number of Ministry of Defence sites along Queensway will be released to the Gibraltar Government as soon as the Gibraltar Government are ready to proceed with the development and alternative facilities can be provided elsewhere. These sites are the ones currently occupied by the NAAFI Headquarters, the PSA Main Stores (including the Maritime Section); the Army Watermanship Training Centre and the Queensway Club. The cost of re-providing these facilities will be borne by HMG.

16. In the Rosia Bay area, if there are development projects involving the area from Engineer Battery along the shore to Rosia Bay and West of Nuffield Pool, HMG would be prepared:-

- (a) to hand over Rosia Mole and adjacent areas of the Bay and to provide continuous access along

- the littoral West of Nuffield Pool when work on the relevant development is ready to proceed; and
- (b) to consider handing over other areas of land between Engineer Battery and the Nuffield Pool.

Fortress Headquarters and its associated facilities would be excluded. The question of access by MOD personnel to any recreation facilities in new developments will be the subject of negotiations between MOD and the developer concerned, but not to the prejudice of the development itself.

17. In addition to the agreement to release the sites already mentioned, HMG have undertaken to look further at their long term property requirements for essential defence purposes to see what sites might in the future be released to the Gibraltar Government. This review will not however be completed until the MOD have had sufficient time to assimilate fully into their planning the effects of the concentration of the Naval Base into the Coaling Island area and the release of the Queensway and Rosia sites. At the same time, the Gibraltar Government will be carrying out their own Land Use Survey which it is expected will be completed by October 1983. HMG and the Gibraltar Government have agreed to establish a Joint Consultative Committee to consider future land use to the best mutual advantage. HMG for their part have given an assurance that they will not unduly delay the provision of alternative facilities, so as not to frustrate any development of the Queensway and Rosia areas.

FUTURE ECONOMIC ASSISTANCE

18. If there are future difficulties for the economy, HMG will be prepared, in line with the 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 in the circumstances of the time.

CONCLUSION

19. This understanding has been reached ad referendum to form the basis of a formal agreement between Her Majesty's Government and the Government of Gibraltar.

John Allan
21 July 1983

Ian Stewart
21 July 1983

CONFIDENTIAL

file 501



10 DOWNING STREET

From the Private Secretary

25 July 1983

GIBRALTAR

The Prime Minister read over the weekend Mr. Stewart's report of 22 July on his last visit to Gibraltar. As I told Roger Bone on the telephone this morning, Mrs. Thatcher has agreed to see Sir Joshua Hassan at 1645 hours on Tuesday, 26 July.

I am copying this letter to Roger Bone (Foreign and Commonwealth Office).

A. J. COLES

I.R. Lee, Esq.,
Office of the PUSS for Defence Procurement,
Ministry of Defence

CONFIDENTIAL

82