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Foreign and Commonwealth Office

London SW1A 2AH

25 July 1983

Prime Minute.

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John Stan,

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Gibraltar Dockyard

Following Mr Stewart's visit to Gibraltar on 20/21 July, and the initialling of an understanding about the closure of the naval dockyard (reported in his minute of 22 July), the Prime Minister has agreed to see Sir J Hassan at 4.45 p.m. on 26 July. The Foreign and Commonwealth Secretary believes that this will be largely a courtesy call although, for domestic political reasons, Sir J Hassan will probably wish to present it as the final stage of the negotiations.

Sir Geoffrey Howe recommends that, after the Prime Minister's meeting, he should sign the formal agreement on the dockyard with Sir J Hassan on behalf of HMG and in the presence of Mr Raison and Mr Stewart. The final agreement (text attached) is based on the text of the understanding initialled by Mr Stewart in Gibraltar on 21 July. There have been some minor drafting changes, which will be cleared with Sir J Hassan before signature, and part of the introduction to the initialled understanding, as well as a section on handling of public announcements, have been omitted as inappropriate for a formal agreement.

Sir Geoffrey Howe recommends that details of the agreement should be announced simultaneously in Parliament and in the Gibraltar House of Assembly on Wednesday afternoon. He believes the Ministry of Defence should take the lead here.

The Secretary of State for Defence agrees with these arrangements.

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I am copying this letter to Private Secretaries
of Members of OD, to PS/Mr Stewart, PS/Mr Raison and
Sir Robert Armstrong.

Yours on
Very truly

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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AGREEMENT BETWEEN HER MAJESTY'S GOVERNMENT AND THE GOVERNMENT OF GIBRALTAR ON CLOSURE OF THE ROYAL NAVAL DOCKYARD AND ASSOCIATED MEASURES.

1. Following detailed consultations between Her Majesty's Government and the Gibraltar Government agreement has been reached on the following points.

CLOSURE OF ROYAL NAVAL DOCKYARD

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

3. 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.

4. 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

5. 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.

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

7. 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. Since acceptance of new commercial working practices is an essential element in the success of the commercial enterprise, funds for

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the project will only be committed after satisfactory assurances have been obtained from the workforce on new working practices. Such funds will however be available for commitment as soon as these assurances are obtained and before closure of the Naval Dockyard. The flow of funds thereafter will depend on the maintenance of these working practices.

8. 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.

9. 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.

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

11. During the period 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.

TRANSFER OF DEFENCE LANDS

12. 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) which have already been negotiated between the two Governments will be formally ratified shortly.

13. 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 their 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 reproviding these facilities will be borne by HMG.

14. 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 as well as to provide continuous access along the littorial 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.

15. HMG 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.

16. 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

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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 will establish a Joint Consultative Committee to consider future land use to the best mutual advantage.

FUTURE ECONOMIC ASSISTANCE

17. 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.

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From: D C Wilson

Date: 28 July, 1983

Private Secretary

Copies to: PS/PUS
Mr James
News Department

SIR J HASSAN'S MEETING WITH THE PRIME MINISTER, 4.45pm, 28 JULY.

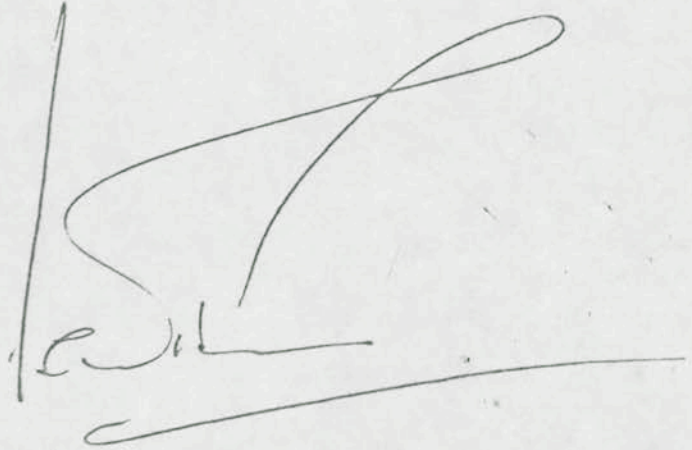
1. You may wish to tell Mr Coles that the team Sir J Hassan wishes to bring with him to the meeting with the Prime Minister today is the same as last time ie, himself, Mr A J Canepa (Minister for Economic Development and Trade) and Mr Joe Pitaluga (Administrative Assistant, ie senior Gibraltarian Civil Servant).
2. Sir J Hassan will have with him a small gift for the Prime Minister (a silver model of the Rock). I see this as a mark of their gratitude for the Prime Minister's help over the dockyard issue and no reason why we should give a return gift.
3. Sir J Hassan may raise the Lisbon agreement and say that, if Spain will lift the restrictions on entry to the EC, the Lisbon agreement is effectively dead and with it our reciprocal commitment to negotiate on "all differences". If he does, so I recommend the Prime Minister should say:
 - (i) We must try to get restrictions lifted sooner than entry. The present partial opening is costly for Gibraltar. Also dangers in having restrictions on Gibraltar as only point holding up Spanish entry.
 - (ii) Need to show that we stick to agreements even if Spaniards do not. Our position in eyes of EC partners and eg US unassailable if we show continued willingness to implement Lisbon.

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- (iii) Should try to get Lisbon agreement implemented before negotiations on Spanish entry completed. Does Hassan have ideas on how we could make progress with Spain?

A handwritten signature in black ink, appearing to be 'D C Wilson', written in a cursive style. The signature is positioned above the typed name and department.

D C Wilson
Southern European Department

26 July, 1983