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PREM 19/1247

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Part 4  
~~SECRET~~ UIC 6165 A  
Confidential Filing

Policy toward Gibraltar.

GIBRALTAR

Closure of Gibraltar dockyard.

Part 1: July 1979

Part 4: July 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>2.83</del>		<del>21.11.83</del>					
<del>4.7.83</del>		<del>13.2.83</del>					
<del>7.7.83</del>		<del>16.12.83</del>					
<del>8.7.83</del>		<del>3.1.84</del>					
<del>13.7.83</del>		<del>9.1.84</del>					
<del>9.7.83</del>		<del>27.1.84</del>					
<del>20.7.83</del>		<del>1.2.84</del>					
<del>25.7.83</del>		<del>8.3.84</del>					
<del>28.7.83</del>		<del>20.3.84</del>					
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<del>7.10.83</del>							
<del>15.11.83</del>							

PREM 19/12/87

- PART ENDS -  
X

● PART 4 ends:-

Madrid Tel 178 20.3.84

PART 5 begins:-

FCO to AJC 6.4.84

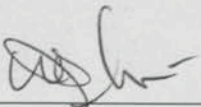


## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

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House of Commons HANSARD, 27 July 1983, column 1212 to 1219: Gibraltar Dockyard

Signed  Date 18/09/2013

**PREM Records Team**

GRS 300  
CONFIDENTIAL

CONFIDENTIAL

FROM MADRID 201425Z MAR 1984  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 178 OF 20 MARCH  
INFO IMMEDIATE GOVERNOR GIBRALTAR (PERSONAL)

YOUR TEL NO 90: SPAIN AND GIBRALTAR

1. I DELIVERED TODAY TO THE SPANISH FOREIGN MINISTER THE TEXT OF YOUR MESSAGE CONTAINED IN YOUR TELEGRAM NUMBER 91. I STRESSED ITS CONFIDENTIAL NATURE. HE EXPRESSED APPRECIATION BOTH FOR YOUR WISH TO MAKE PROGRESS AND YOUR COMMENT ABOUT THE VERY CAREFUL LINE HE HIMSELF HAS BEEN TAKING IN PUBLIC. MORAN ADDED IMMEDIATELY THAT HE AGREED WITH EVERYTHING YOU SUGGESTED. HE LIKED THE IDEA OF ADVANCE PREPARATION BETWEEN OFFICIALS BEFORE YOUR MEETING IN LUXEMBOURG IN THE SECOND WEEK OF APRIL.

2. MORAN SAID THAT HE HOPED THESE ADVANCE PREPARATIONS COULD INCLUDE ANOTHER MEETING OF WHAT HE DESCRIBED AS THE LEGAL GROUP. BERDEJO WOULD SHORTLY BE SENDING US A PAPER ON THE LEGAL AND CONSTITUTIONAL ISSUES. THE MINISTER WOULD BE GRATEFUL TO HAVE OUR REACTION TO THAT PAPER. HE DID NOT THINK THERE WOULD BE TIME BEFORE THE LUXEMBOURG MEETING TO ORGANISE ANOTHER MEETING ABOUT CIVIL AVIATION.

3. I THEN EXPLAINED THE PROPOSAL FOR A VISIT BY HANNAY IN THE FIRST WEEK OF APRIL (YOUR TELNO 87). MORAN THOUGHT THAT THIS WOULD BE A GOOD IDEA AND ASKED ME TO PURSUE THE MATTER WITH BERDEJO.

4. SPEAKING MORE GENERALLY, MORAN, WHO WAS IN EXCELLENT FORM, SAID THAT THINGS SEEMED TO BE GOING QUITE WELL NOW BETWEEN OUR TWO GOVERNMENTS OVER GIBRALTAR. HE BEGGED YOU, HOWEVER, TO BEAR IN MIND THAT IN SPANISH POLITICAL CIRCLES THERE EXISTED A NOTION FOSTERED BY FRAGA IN PARTICULAR, THAT BRITAIN WAS TRYING TO FORCE SPAIN TO OPEN THE FRONTIER COMPLETELY AS THE PRICE OF ACCESSION TO THE COMMUNITY. HE HOPED VERY MUCH THAT THE OUTCOME WOULD BE SUCH AS TO HELP HIM WITH HIS PRESENTATION AT HOME.

5. MORAN ALSO SAID THAT IT HAD BEEN SUGGESTED THAT HE MIGHT HAVE A MEETING AT SOME POINT WITH HASSAN ACCOMPANIED BY BOSSANO. HE READILY UNDERSTOOD HASSAN'S DIFFICULTIES IN DEALING WITH BOSSANO WHO HAD THE MAKINGS OF ANOTHER MINTOFF. HE WOULD NOT OBJECT TO A MEETING THOUGH HE INDICATED PLAINLY THAT HE DID NOT PARTICULARLY CARE EITHER WAY. IF THERE WAS A MEETING, HE WOULD CERTAINLY KEEP YOU INFORMED ABOUT THE RESULTS.

6. MORAN'S MANNER WAS MARKEDLY FRIENDLY AND HE CLEARLY APPRECIATED BOTH THE CONTENT AND TONE OF YOUR MESSAGE.

CONFIDENTIAL

# CONFIDENTIAL

7. I SUBSEQUENTLY SAW BERDEJO WHO EXPRESSED THE HOPE THAT THE MINISTERIAL MEETING MIGHT BE ON 9 APRIL TO ENABLE HIM TO ATTEND. HE CONFIRMED THAT THE LONG PROMISED PAPER ON LEGAL ISSUES WOULD BE REACHING US VERY SOON. BERDEJO AGREED THAT A PRELIMINARY VISIT BY HANNAY WOULD BE USEFUL AND SAID THAT ANY DAY IN THE FIRST WEEK OF APRIL WOULD BE CONVENIENT TO HIM. WESTENDORP IS ALSO FREE DURING THE EARLY PART OF THAT WEEK.

8. PLEASE SEE MIFT.

PARSONS

GIBRALTAR

LIMITED  
SED  
DEF D  
NEWS D  
PUSD  
ECD(E)  
PLANNING STAFF  
MAED  
PS

PS/LADY YOUNG  
PS/MR WHITNEY  
PS/PUS  
SIR J BULLARD  
MR WRIGHT  
SIR C TICKELL  
MR CARTLEDGE  
MR HANNAY  
MR JENKINS

ADDITIONAL DISTRIBUTION  
GIBRALTAR

-2-

# CONFIDENTIAL



FILE

RW

cc: SIR. P. G.

10 DOWNING STREET

From the Private Secretary

16 March, 1984

GIBRALTAR

The Prime Minister saw over night your letter of 15 March.

Mrs. Thatcher has made two comments. First, she believes that the proposed message from the Foreign and Commonwealth Secretary to the Spanish Foreign Minister should be sent only if the Chief Minister of Gibraltar has no reservations about it.

Secondly, the Prime Minister has minuted to the effect that there cannot be any link between the Rapier contract and proposals relating to Gibraltar. I think Mrs. Thatcher would wish the first sentence of paragraph 2 and also paragraph 3 of the proposed telegram to Madrid to be revised accordingly.

A. J. COLES

R.B. Bone, Esq.,  
Foreign and Commonwealth Office

CONFIDENTIAL

NR





Prime Minister.

Foreign and Commonwealth Office

The Foreign Secretary mentioned to you the idea at X below. He

London SW1A 2AH

now proposes to meet the Spanish Foreign Minister on 9/10 April to

15 March, 1984

carry this forward — and then incidentally

to improve or clarify the claims of supplying liquor to Spain.

Message to go ONLY if Sir J. Hassan has

A.S.C.  $\frac{15}{3}$

no reservation about it.  
=

Gibraltar

You will recall that we corresponded last year about the possible ways of getting the Spaniards to lift restrictions on Gibraltar. Our correspondence rested with an exchange of letters dated 20 October which followed a minute from the Foreign and Commonwealth Secretary to the Prime Minister dated 19 September 1983.

We have long recognised that Spanish accession to the European Community offered us the best lever available for achieving a normalisation of relations at the border between Spain and Gibraltar. But it has become clear from various contacts with Spaniards over the last six months, including Sir Geoffrey Howe's meeting with the Spanish Foreign Minister, that some appearance of movement on our part would be necessary to enable the Spaniards to justify to their public opinion the lifting of all restrictions.

X  
When the Chief Minister called on Sir Geoffrey on 7 March, following his electoral victory, Sir Joshua Hassan agreed to an approach designed to secure the full lifting of restrictions. In essence, we would propose to the Spaniards that those rights which both sides will enjoy upon the day of Spain's accession to the EC would be implemented at an agreed dates in advance, on a reciprocal basis. These rights would of course exclude the freedom for Spaniards to seek work in Gibraltar, which would be subject to the transitional period agreed by the Community (probably 7 years).

You will recall that we went over the details of this approach extensively in the correspondence to which I refer above. Its rationale is described in the minute to the Prime Minister of 19 September 1983. As you will see from the attached paper (originally enclosed with Brian Fall's letter of 11 October 1983) the reciprocal rights in question cover certain aspects of rights of establishment and rights to provide services, social security and medical benefits and transport.

Sir J Hassan readily agreed that we should proceed along these lines and that we should do so quickly and in close consultation.



Against this background, Sir Geoffrey proposes to meet the Spanish Foreign Minister next month to discuss the way forward on the lines described above. This meeting, which might take place in the margins of the Foreign Affairs Council in Luxembourg on 9/10 April, would be preceded by a meeting of officials to prepare the ground.

Meanwhile we have recently received a hint from the King of Spain through HM Ambassador in Madrid that the proposals for the Rapier contract (whose value is approximately £170 million) would be improved by a British 'sweetener' as regards Gibraltar. We clearly cannot give anything away on Gibraltar to help our case on Rapier, but Sir Geoffrey believes that a personal message to Sr Moran might be enough to tip the scale in favour of Rapier as against Roland (France/Germany) or Chaparral (US). Roland is Rapier's main competitor, but the outcry in Spain as a result of French action last week against Spanish fishing boats in the Bay of Biscay may also help to tip the balance in our favour. A decision on this contract is expected before the end of March. I enclose a copy of the draft message, whose delivery would be subject to the concurrence of the Governor of Gibraltar, who is in touch with Sir J Hassan, to ensure that the Chief Minister has the required support from his colleagues.

*We discussed  
or rather  
repeatedly  
the 'sweetener'  
as per  
before. These  
cannot be any  
kind of bribe  
Rapier wishes  
we propose on  
Gibraltar.*

(R B Bone)  
Private Secretary

A J Coles Esq  
10 Downing Street



GIBRALTAR: ANALYSIS OF EC RIGHTS AND PRESENT RIGHTS OF SPANIARDS

Introduction

1. This paper examines the main rights of EC nationals in Gibraltar, and the present difference in treatment (if any) of Spaniards. Comment is given under each heading on the possible value to Spain of obtaining EC-type rights in advance of accession, and the implications for Gibraltar.

2. Some 250 Spanish nationals have continued to live and work in Gibraltar since the frontier was closed in 1969. Since partial opening of the frontier to pedestrians in December 1982 a few additional Spaniards have found employment.

A. Rights of establishment and freedom to provide services

3. EC Rights

To enter Gibraltar freely to settle or to render a service and to buy land or property on same basis as Gibraltarians.

4. Present practice for Spaniards

- (a) Must obtain entry and residence permits, latter being issued only to those with work permits.
- (b) May only purchase land or property if they form a limited company in Gibraltar; or, with Governor's consent, if they have been resident in Gibraltar for 15 years.

5. Comment

For Spain EC rights would represent a significant advance on present practice.

For Gibraltar These rights will have to be applied to Spaniards on accession (no transitional period). Some fear of 'swamping' by Spanish commercial competition (cf free entry of EC banks now being controlled by economic need criterion, in contravention of EC rules). But lack of available property will limit inflow: so will derogation granted to Spain to limit capital outflows (see para 17 below). No significant financial implications if rights given to Spaniards in advance. Limited legislative action required.

6. Conclusion Possible area for giving Spaniards rights in advance of accession at little real cost to Gibraltar.

/B.



B. Freedom of Movement of Labour

7. EC rights

- (a) to enter to seek work freely;
- (b) non-discriminatory terms of employment;
- (c) equal trade union rights;
- (d) access to education and training for children;
- (e) equal access to housing.

8. Present practice for Spaniards

- (a) Free entry: Spaniards may only enter to look for work as short stay visitors.
- (b) Terms of Employment: Spaniards need work permits but are otherwise guaranteed same pay and conditions of work as Gibraltarians by practice (not law), and, in common with all workers, are protected against unfair dismissal (by law).
- (c) Trade Union Rights: Rights of non-resident Spanish workers are limited in that they may neither vote on nor lead strike activity, and eligibility for senior union office is circumscribed.
- (d) Education: Free education available to all residents of Gibraltar, but not to families of non-resident workers.
- (e) Housing: Any permanent resident of Gibraltar eligible to apply for government-owned housing.

9. Comment

For Spain Rights under his heading have so far been the key issue in attempts to press for 'equal' treatment before agreeing to lift restrictions.

For Gibraltar Free movement of labour very sensitive because of fears of local unemployment after dockyard closure and of undercutting of wages. Impossible to move more quickly than rest of EC on abolition of work permit controls (EC will probably settle for 7 year transitional period). But Spanish residents of Gibraltar currently enjoy rights at 7 b, c, d and e (with the key exceptions that they require permits to work).

/ May be



May be some scope for extension of some of these rights to non-residents. Amendments to Immigration Control, Control of Employment, and Trade Unions and Trade Disputes (Conciliation and Arbitration) Ordinances would be required.

10. Conclusion No room for movement on working without permit prior to accession (and probably before end of transition period). Some room for movement on other rights in this category.

C. Social Security and Medical Benefits

11. EC Rights

- (a) equal treatment for contributory benefits (including pensions) and non-contributory pensions;
- (b) unemployment benefit for 13 weeks;
- (c) family allowances payable for frontier workers;
- (d) families of non-resident workers to be eligible for medical treatment in Spain at Gibraltar's expense, or in Gibraltar.

Though negotiations have not been completed, these obligations are in general expected to take effect on accession, without any transitional period.

12. Present Practice for Spaniards

All workers in Gibraltar, resident or non-resident, pay full Gibraltar tax. Equal treatment, except that:

- (a) families of non-resident workers not eligible for free medical and hospital treatment;
- (b) family allowances paid only when families are resident in Gibraltar;
- (c) pensions payable to non-resident Spaniards (e.g. those who worked in dockyard before closure of frontier) are not increased in line with increases in Gibraltar rates.

13. Comment

For Spain EC rights will provide important benefits for pensioners and in eligibility of non-resident families for family allowances and medical treatment.

For Gibraltar Full advance implementation of all EC rights under this heading would impose very high financial costs on

/Gibraltar



Gibraltar, out of proportion to the political value to Spain of the concession. Pensions a particularly serious worry; we are already discussing with the Commission ways in which the liability arising on accession might be alleviated.

14. Conclusion Advance movement on pension rights extremely costly for Gibraltar: therefore not an attractive option. Room for manoeuvre on other rights under this heading (particularly given that non-resident workers pay same taxes as residents) but may be difficult to disentangle them from pensions.

D. Free movement of capital

15. EC rights

EC requirement to comply with *acquis* on free movement of capital.

16. Present practice

Spain - unlike Gibraltar - currently maintains exchange controls, with tight limits on outward investment.

17. Comment

For Spain Difficult to apply in advance of accession. Already granted a five year derogation on capital outflows for property investment and a three year derogation for the purchase by Spaniards of foreign securities traded at a stock exchange.

For Gibraltar Easy. No exchange controls. Effect of derogation for Spain will limit Spanish purchase of property in Gibraltar.

18. Conclusion Cost free for Gibraltar. Very unattractive to Spain. Might therefore be traded against Social Security rights in C. above as part of a package of EC rights minus some elements.

E. Transport

19. EC rights

EC requirement that Spanish driving licences be recognised without a Gibraltar driving test, and coach tour operators be allowed in without a licence.



20. Present practice for Spaniards

Spanish licences recognised in Gibraltar for first 3 years of residence, but only for private driving.

21. Comment

For Spain could be useful presentationally.

For Gibraltar an easy gesture.

22. Conclusion No real problems in giving rights in advance. But of little significance.

OUT TELEGRAM

		Classification and Caveats <b>CONFIDENTIAL</b>	Precedence/Deskby <b>IMMEDIATE</b>
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ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	CONFIDENTIAL
CAVEATS	4	
DESKBY	5	
FM FCO	6	FM FCO
PRE/ADD	7	TO IMMEDIATE MADRID
TEL NO	8	TELEGRAM NO
	9	INFORMATION IMMEDIATE GOVERNOR GIBRALTAR (PERSONAL)
	10	INFORMATION PRIORITY UKREP BRUSSELS
	11	Your telegram No 164: SPAIN/GIBRALTAR/RAPIER
	12	1. We agree that we should try to take advantage of
	13	this opportunity by developing the process outlined in FCO
	14	telegram No 87. MIFT sets out a message to Sr Moran which
	15	you should deliver at the most appropriate opportunity before
	16	the Spanish Cabinet meets on <u>21 March</u> (subject to indication
	17	from <u>Governor</u> that he has no objection, from Gibraltar
	18	standpoint). In doing so, please stress the desirability
	19	of the confidentiality of our exchanges being preserved as
	20	far as possible.
	21	2 For your own information, we see some risk in
///	22	specifically linking our ideas for the way forward over
//	23	Gibraltar with our offer on Rapier. Our prime objective is
/	24	to secure the lifting of restrictions on Gibraltar: we
	25	would not wish the Spaniards to pocket our approach in a

NNNN ends telegram	BLANK	Catchword purely
File number	Dept SED	Distribution GIBRALTAR LTD ADDITIONAL GIBRALTAR
Drafted by (Block capitals) R A NEILSON		
Telephone number 233-4806		
Authorised for despatch		
Comcen reference	Time of despatch	



OUT TELEGRAM (CONT)

	Classification and Caveats <b>CONFIDENTIAL</b>	IMMEDIATE	Page 2
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 purely Rapier context. For this reason, the message does not refer to Rapier. But, if the Spaniards are looking for an excuse to choose Rapier instead of Roland, we would hope that this message would serve the purpose.  
 3. We would have no objection, if you consider it appropriate, to you implying to the King that the message might also be considered in this light.  
 4. If Moran accepts the idea of an early meeting, you should proceed quickly with arrangements for preparatory visit by Hannay as envisaged in FCO telegram No 87.

HOWE  
NNNN

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NNNN ends telegram	BLANK	Catchword
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OUT TELEGRAM

	↓	Classification and Caveats <b>CONFIDENTIAL</b>	Precedence/Deskby <b>IMMEDIATE</b>
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ZCZG	1	ZCZC
GRS	2	GRS
CLASS	3	CONFIDENTIAL
CAVEATS	4	
DESKBY	5	
FM FCO	6	FROM FCO
PRE/ADD	7	TO IMMEDIATE MADRID
TEL NO	8	TELEGRAM NO
	9	INFORMATION IMMEDIATE TO GOVERNOR GIBRALTAR (PERSONAL)
	10	MIPT: SPAIN/GIBRALTAR/RAPIER
	11	Following is text of my message to Moran:
	12	QUOTE
	13	Following our last meeting on 20 February I have
	14	been looking over the state of the various diplomatic and
	15	technical contacts which you and I set in train at our
	16	meeting in New York last September. My own view is that these
	17	contacts have been very useful in clarifying several areas
	18	of interest to both sides. I feel sure that this has been
	19	greatly helped both by the businesslike spirit in which we
	20	have approached the problem, and also by the mutual restraint,
	21	consistent with our agreement in New York, which we have
///	22	succeeded in maintaining in public. Your very careful line
//	23	at your meeting with the Foreign Affairs Committee of the
/	24	Cortes was a recent example.
	25	

NNNN ends telegram	BLANK	Catchword 2. In the
File number	Dept SED	Distribution GIBRALTAR LIMITED ADDITIONAL GIBRALTAR
Drafted by (Block capitals) R NEILSON		
Telephone number 233-4806		
Authorised for despatch		
Comcen reference	Time of despatch	





Foreign and Commonwealth Office

London SW1A 2AH

14 March 1984

*Jan John,*

Gibraltar

*A revised version of this has  
been put to the Prime  
Minister. A.S.C. 16/3*

You will recall that we corresponded last year about <sup>h.a.</sup> the possible ways of getting the Spaniards to lift restrictions on Gibraltar. Our correspondence rested with an exchange of letters dated 20 October which followed a minute from the Foreign and Commonwealth Secretary to the Prime Minister dated 19 September 1983, a copy of which is attached for ease of reference.

We have long recognised that Spanish accession to the European Community offered us the best lever available for achieving a normalisation of relations at the border between Spain and Gibraltar. But it has become clear from various contacts with Spaniards over the last six months, including Sir Geoffrey Howe's meetings with the Spanish Foreign Minister, that some appearance of movement on our part would be necessary to enable the Spaniards to justify to their public opinion the lifting of all restrictions.

When the Chief Minister called on Sir Geoffrey on 7 March, following his electoral victory, Sir Joshua Hassan agreed to an approach designed to secure the full lifting of restrictions. This is basically the one which was outlined in Sir Geoffrey's minute to the Prime Minister of 19 September. In essence, we would propose to the Spaniards that those rights which both sides will enjoy upon the day of Spain's accession to the EC would be implemented at an agreed date in advance, on a reciprocal basis. These rights would of course exclude the freedom for Spaniards to seek work in Gibraltar, which would be subject to the transitional period agreed by the Community (probably 7 years). Sir J Hassan readily agreed that we should proceed along these lines and that we should do so quickly and in close consultation.

/Against



Against this background, Sir Geoffrey proposes to meet the Spanish Foreign Minister next month to discuss the way forward on the lines described above. This meeting, which might take place in the margins of the Foreign Affairs Council in Luxembourg on 9/10 April, would be preceded by a meeting of officials to prepare the ground. Sir Geoffrey would send a personal message to Sr Moran. I enclose a copy of the draft message, whose delivery would be subject to the concurrence of the Governor of Gibraltar, who is in touch with Sir J Hassan, to ensure that the Chief Minister has the required support from his colleagues.

One reason for making this move lies in a hint which we have received from the King of Spain through HM Ambassador in Madrid that the proposals for the Rapier contract (whose value is approximately £170 million) would be improved by a British "sweetener" as regards Gibraltar. The relevant telegrams are enclosed. We clearly cannot give anything away on Gibraltar to help our case on Rapier, but Sir Geoffrey believes that a message on the lines proposed might be enough to tip the scale in favour of Rapier as against Roland (France/Germany) or Chaparral (US). Roland is Rapier's main competitor, but the outcry in Spain as a result of French action last week against Spanish fishing boats in the Bay of Biscay may also help to tip the balance in our favour. A decision on this contract is expected at the end of March.

(R B Bone)  
Private Secretary

A J Coles Esq  
10 Downing Street



PM/83/71

PRIME MINISTER


Gibraltar

1. When in Madrid on 6 - 7 September for the CSCE closing session I took the opportunity, as planned, to discuss the Gibraltar question with the Spanish Foreign Minister. I also discussed Gibraltar more briefly when I met the King and the Prime Minister.

2. The meeting with Sr Moran followed the lines envisaged in my minute of 1 September. It was a useful first contact and enabled me to explore present Spanish thinking on Gibraltar. Moran was clearly determined to improve the tone of discussion about Gibraltar and to make amends for the atmosphere created during his visit here in March. But, although the atmospherics were greatly improved, the substance of the Spanish position has not changed. Moran said that, although he did not like the 1980 Lisbon agreement, he was prepared to keep it as a framework for dealing with the issue. But he continued to take the line that there was still a need for "clarification" of the British side of the undertakings in the agreement. He insisted that it was a political and practical impossibility for him to carry out the Spanish undertaking to remove restrictions without something to show in return. In effect he was arguing that the Spaniards could not implement their part of the Lisbon agreement unless they had some additional face-saver.

3. For my part I restated our willingness to implement the agreement reached at Lisbon in 1980. I emphasised our commitment to the Gibraltarians. Their views and wishes were the key element. I also stressed the need to improve the context in which the whole issue was discussed by practical

measures




measures such as economic steps to benefit those on both sides of the frontier. But such beneficial changes could only come about with the lifting of restrictions. I tried also to persuade Moran to see Spanish accession to the Community as a way in which some of the more contentious issues, such as the treatment of Spaniards in Gibraltar and vice versa, might be handled.

4. I conclude from this meeting, and from the other indications we have had about Spanish attitudes, that the prospects of getting the present Spanish Government to lift the restrictions on Gibraltar, using only the formula which had been agreed last year with their predecessors for implementing the Lisbon agreement, are very poor.

5. The British interest, it seems to me, can be summed up as follows:

- (i) in Gibraltar itself, to get the remaining restrictions lifted, without of course paying any undue price to Spain or forfeiting the confidence of the Gibraltar Government and people;
- (ii) to keep to the timetable for Spanish entry into the European Community, ie conclusion of the negotiations before the end of 1984 and actual entry on 1 January 1986 (this is the last possible date within the life-time of the present Spanish Parliament and the deadline which the Spanish Government has set if Spain is not to lose interest in membership); and
- (iii) to ensure if possible that the referendum on NATO membership, which the Spanish Government intend to hold, probably in 1985, goes the right way.


6. Point (i) speaks for itself. As to (ii) it is clear that the final stages of negotiating the terms of Spanish entry into the Community create a two-edged weapon. At present we have the Commission and Community partners with us in maintaining that the restrictions on imports and the free movement of people



are incompatible with Community obligations. We ourselves have made it clear that simply because of the nature of these obligations Spain would not be able to accede to the Community while the restrictions on Gibraltar remain in force. This is a useful form of pressure on the Spaniards. But, whatever the legal position, all our experience in other Community negotiations must make us doubt if we could keep our Community partners with us if disagreement about Gibraltar were the only matter holding up Spanish entry into the Community. If we came to that point, our partners would start looking to us to "show flexibility", ie to make concessions, to buy Spain's compliance with EC obligations. If we maintained our veto and Spain failed to join the Community, our partners both inside and outside the Community would see this in itself as a major setback for Western interests for which we should be blamed. Although in the last resort we would have an entirely justifiable case for a veto, I believe that our interests and those of Gibraltar would be much better served if we can avoid the issue being posed so starkly.

7. As to point (iii), the outcome of Spain's efforts to join the European Community will also affect her membership of NATO. This is a matter of great political and strategic interest to the West. The present Spanish Government is against participation in the integrated military structure and equivocal about continued membership of the Alliance itself. The Prime Minister probably favours membership while the Foreign Minister is opposed. A majority of public opinion appears at present to be against continued membership. One reason for delaying a promised referendum on the subject until 1985 is probably Sr Gonzales's hope that, by then, public opinion may have changed in the light of Spain's acceptance as a member of the European Community. There can be no guarantee that a referendum will go in favour of membership of NATO even if Spain is by then a member of the Community. But it is a virtual certainty that the result will be unfavourable if EC accession has foundered on the Gibraltar problem. We must, if at all possible, avoid a situation which will stack the cards

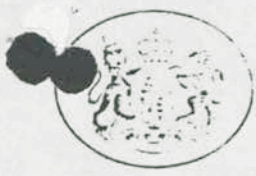




against a favourable outcome on a matter of such great importance to ourselves and our allies and for which we, however unfairly, would be partly blamed. We must also do our best to avoid exposing ourselves to heavy pressure from our allies, particularly the Americans who have invested a great deal in encouraging Spain to join NATO, to make concessions over Gibraltar in order to improve the chances of Spain remaining in the Alliance.

8. The time when we can expect these pressures to build up seriously is now less than a year away. The EC accession time-table means that, before autumn 1984 when the Accession Treaty should be signed if accession is to take place on 1 January 1986, we must, at the very least, have public and bankable assurances from the Spaniards that they will lift restrictions before the date of accession. The signing of the Accession Treaty will be only a few months before the 1985 NATO referendum. The two will inevitably be seen as closely linked. Time is therefore short if we are to get the frontier restrictions lifted.

9. These considerations lead me to believe that the time has now come to tackle the task of creating conditions in which the present Spanish Government will steel themselves to lifting the restrictions on Gibraltar. It is clear - if only because of the change of Government - that it is no longer enough to wait, as we have been doing, for Spain to implement the bargains struck between the then Foreign Ministers of Britain and Spain in April 1980 and clarified when the then Spanish Prime Minister came here in January 1982. But, in considering the pressures of the time-table discussed above, we must not lose sight of the first objective, which is to retain the confidence of Gibraltarian opinion and carry Sir Joshua Hassan with us in anything we do. An important factor here is the elections in Gibraltar which are due by March 1984 at the latest and which will probably be held early next year. With a generous solution of the dockyard issue in his pocket, Hassan is now in a much better position to face these elections than he was a



few months ago. But the period before the elections is still likely to be a time of particular political sensitivity for him. We must take this fully into account in our dealings with the Spaniards.

10. During my meeting with Moran in Madrid we agreed to meet again in New York during the week of 26 September when we will both be there for the General Assembly. At that meeting I believe that our interests would be best served if I were to suggest that we should examine further ways in which the 1980 Lisbon statement could be brought into effect, and restrictions lifted, before the Gibraltar problem begins seriously to complicate the process of Spanish accession to the EC. I envisage this being done by two general approaches. First, discussions by experts on the implications for Gibraltar/Spain of Spanish entry to the Community, and second, exploratory talks between our Ambassador and the Spanish MFA.

11. Discussions on EC matters would explore whether Spain's forthcoming entry to the Community might be used as a means of providing Spain with the presentational justification for lifting restrictions well in advance of actual accession. We should have to work to lower present Spanish expectations of what can be achieved in this way. But, in the light of these discussions, it might subsequently be possible, for example, to reach agreement that, in return for the lifting of restrictions, Spain could enjoy some of the rights they will get on accession in advance of the actual accession date. These cannot include immediate free movement of labour (a present Spanish demand which is a very sensitive issue for the Gibraltarians) since that will be subject throughout the Community to a long transitional period, probably of 7 years. Such an approach might provide a face-saving way out for Spain at minimal cost to Gibraltar. The same talks would be used to explain to the Spaniards in detail why their present restrictions are legally incompatible with their Treaty obligations, although this is a subject on which it is tactically most effective for the Community (ie the Presidency



and the Commission) to make the running for us.

12. The purpose of the other talks, between our Ambassador and the Spanish Ministry of Foreign Affairs, would be to discover whether the political will exists on the Spanish side to lift restrictions and, if so, to identify ways in which the Spaniards' concern about the problems they face in terms of public presentation might be met. These discussions might tie in with the talks on EC matters if the EC context looked like providing the right way forward. Alternatively, they might show that we can only make progress through an approach which would achieve the objectives of the Lisbon agreement by a similar process of linked moves by both sides but getting away from sterile arguments about the precise meaning of the various undertakings in that document. It might be possible, for instance, to think of a parcel of practical measures which would allow for resumed communications between Spain and Gibraltar by land, sea and air, and also improve the status both of Spaniards in Gibraltar and of Gibraltarians in Spain, without confronting head-on the delicate and emotional issues which have so far prevented the Lisbon agreement from being implemented. It might also be possible to identify and open up ways of practical economic co-operation - for example in tourism - that could help to take matters forward. We are currently giving further thought to all this.

13. In this same context, if the Spaniards again put forward the use of Gibraltar airport and competition with Malaga as serious obstacles to lifting restrictions, I would point out that our previous offer of technical talks on air services remains on the table.

14. In identifying possible ways forward we would, as I say, have to make sure that we carry Sir J Hassan with us. This means keeping him closely informed in confidence of what we are doing, making progress with the Spaniards where we can, but

/accepting



accepting and getting the Spaniards to accept that in some areas we may not be able to take any concrete action until after the Gibraltar elections. We should insist meanwhile that any discussions with the Spaniards are purely exploratory and that they should be conducted in a low key manner through normal diplomatic channels.

15. I am copying this minute to Michael Heseltine and to Sir Robert Armstrong.

Foreign and Commonwealth Office  
19 September 1983

OUT TELEGRAM

		Classification and Caveats <b>CONFIDENTIAL</b>	Precedence/Deskby <b>IMMEDIATE</b>
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ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	CONFIDENTIAL
CAVEATS	4	
DESKBY	5	
FM FCO	6	FM FCO
PRE/ADD	7	TO IMMEDIATE MADRID
TEL NO	8	TELEGRAM NO
	9	INFORMATION IMMEDIATE GOVERNOR GIBRALTAR (PERSONAL)
	10	INFORMATION PRIORITY UKREP BRUSSELS
	11	Your telegram No 164: SPAIN/GIBRALTAR/RAPIER
	12	1. We agree that we should try to take advantage of
	13	this opportunity by developing the process outlined in FCO
	14	telegram No 87. MIFT sets out a message to Sr Moran which
	15	you should deliver at the most appropriate opportunity before
	16	the Spanish Cabinet meets on 21 March (subject to indication
	17	from Governor that he has no objection, from Gibraltar
	18	standpoint). In doing so, please stress the desirability
	19	of the confidentiality of our exchanges being preserved as
	20	far as possible.
	21	2 For your own information, we see some risk in
///	22	specifically linking our ideas for the way forward over
//	23	Gibraltar with our offer on Rapier. Our prime objective is
/	24	to secure the lifting of restrictions on Gibraltar: we
	25	would not wish the Spaniards to pocket our approach in a

NNNN ends telegram	BLANK	Catchword purely
File number	Dept SED	Distribution GIBRALTAR LTD ADDITIONAL GIBRALTAR
Drafted by (Block capitals) R A NEILSON		
Telephone number 233-4806		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

	Classification and Caveats <b>CONFIDENTIAL</b>	<b>IMMEDIATE</b>	Page <b>2</b>
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purely Rapier context. For this reason, the message does not refer to Rapier. But, if the Spaniards are looking for an excuse to choose Rapier instead of Roland, we would hope that this message would serve the purpose.

3. We would have no objection, if you consider it appropriate, to you implying to the King that the message might also be considered in this light.

4. If Moran accepts the idea of an early meeting, you should proceed quickly with arrangements for preparatory visit by Hannay as envisaged in FCO telegram No 87.

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	Classification and Caveats <b>CONFIDENTIAL</b>	Precedence/Deskby <b>IMMEDIATE</b>
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ZCZC 1 ZCZC  
 GRS 2 GRS  
 CLASS 3 CONFIDENTIAL  
 CAVEATS 4  
 DESKBY 5  
 FM FCO 6 FROM FCO  
 PRE/ADD 7 TO IMMEDIATE MADRID  
 TEL NO 8 TELEGRAM NO

9 INFORMATION IMMEDIATE TO GOVERNOR GIBRALTAR (PERSONAL)  
 10 MIPT: SPAIN/GIBRALTAR/RAPIER

11 Following is text of my message to Moran:

12 QUOTE

13           Following our last meeting on 20 February I have  
 14 been looking over the state of the various diplomatic and  
 15 technical contacts which you and I set in train at our  
 16 meeting in New York last September. My own view is that these  
 17 contacts have been very useful in clarifying several areas  
 18 of interest to both sides. I feel sure that this has been  
 19 greatly helped both by the businesslike spirit in which we  
 20 have approached the problem, and also by the mutual restraint,  
 21 consistent with our agreement in New York, which we have  
 22 succeeded in maintaining in public. Your very careful line  
 23 at your meeting with the Foreign Affairs Committee of the  
 24 Cortes was a recent example.

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File number	Dept SED	Distribution GIBRALTAR LIMITED ADDITIONAL GIBRALTAR
Drafted by (Block capitals) R NEILSON		
Telephone number 233-4806		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

	Classification and Caveats <b>CONFIDENTIAL</b>	IMMEDIATE	Page 2
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1 <<<<  
 2 2. In the light of the progress so far made and bearing  
 3 in mind the timetable for the negotiations for Spain's  
 4 entry to the Community, I believe that it might now be  
 5 possible to make further progress. I should therefore like  
 6 to suggest that we should meet in the margins of the Foreign  
 7 Affairs Council in Luxembourg on 9 or 10 April to discuss  
 8 the way forward. I know that this is rather earlier than  
 9 the dates you had envisaged when we last met. But I believe  
 10 it would be helpful ~~to~~ to bring the meeting forward a  
 11 bit.  
 12 3. I also think that our meeting will be more fruitful if  
 13 we can arrange for some advance preparation to take place  
 14 between officials. Our Embassy can take this further if you  
 15 agree in principle. UNQUOTE.

17 HOWE,  
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FM MADRID 091745Z MAR 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 159 OF 9 MARCH

INFO IMMEDIATE MODUK (FOR PRIVATE SECRETARY/MR PATTIE  
AND BEAUMONT RMD4) AND GOVERNOR GIBRALTAR (PERSONAL)

MIPT : RAPIER

1. ALTHOUGH THE DEGREE OF THE KING'S PERSONAL SUPPORT FOR RAPIER MAY NOT BE KNOWN TO HIS MINISTERS, WE SUSPECT THAT THEY IN FACT AUTHORISED THIS LATEST APPROACH. SENIOR SPANISH MINISTERS MAY WELL HAVE CONCLUDED THAT THIS IS NO MOMENT TO AWARD A BIG CONTRACT TO THE FRENCH, AND THAT IT WOULD MAKE BETTER POLITICAL SENSE TO SEE WHAT THEY COULD EXTRACT FROM US IN EXCHANGE FOR THE RAPIER CONTRACT.

2. WE AM OF COURSE WELL AWARE OF THE DIFFICULTIES FOR US OF MAKING ANY SUBSTANTIAL MOVEMENT OVER GIBRALTAR IN ADVANCE OF FULL OPENING OF THE FRONTIER. THE KING SHOWED UNDERSTANDING WHEN WE MADE THIS POINT CLEAR. YOUR MEETING WITH SIR J HASSAN OF 7 MARCH (YOUR TELNO PERSONAL 19 TO GOVERNOR GIBRALTAR), WHICH OF COURSE WE DID NOT MENTION TO THE KING, SHOWED THAT HASSAN WANTS TO MAKE PUBLIC USE OF THE PROTECTION GIBRALTAR WOULD RECEIVE FROM A SEVEN YEAR TRANSITIONAL PERIOD FOR FREE MOVEMENT OF LABOUR, AND THAT HE WOULD REALLY LIKE THE LISBON AGREEMENT TO BE CONSIDERED IRRELEVANT. IN THE CIRCUMSTANCES IT SEEMS FAR FROM EASY TO CONSTRUCT ANYTHING FOR PUBLIC USE WHICH WOULD MEET THE TWO POINTS MADE BY THE KING, PRIMED BY MORAN, ABOUT WILLINGNESS TO TALK AND THE POSITION OF SPANIARDS IN GIBRALTAR.

3. ON THE OTHER HAND, A CAREFULLY CONSTRUCTED MESSAGE FROM YOU TO MORAN MIGHT FAVOURABLY INFLUENCE THE CABINET DECISION. SUCH A MESSAGE MIGHT BEGIN BY SAYING THAT YOUR RECENT BILATERALS WITH MORAN ABOUT GIBRALTAR HAVE ENABLED YOU BOTH TO APPRECIATE THE PROBLEMS OF PUBLIC PRESENTATION IN EACH COUNTRY AND GIBRALTAR ITSELF. YOU MIGHT GO ON TO EXPRESS THE HOPE THAT, AT THE NEXT BILATERAL, IT WILL BE POSSIBLE TO MAKE PROGRESS OVER THE FULL OPENING OF COMMUNICATIONS AND THE RECIPROCAL RIGHTS OF SPANIARDS AND GIBRALTARIANS AND OTHER ISSUES UNDER DISCUSSION. YOU WILL HAVE IDEAS TO PUT FORWARD.

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## SECRET

4. AS AN ADDITIONAL (OR INDEED ALTERNATIVE) STRATEGY, YOU MIGHT CONSIDER THE POSSIBILITY OF AN EARLY IF SHORT VISIT TO MADRID BY A SENIOR BRITISH MINISTER, PREFERABLY THE SECRETARY OF STATE FOR DEFENCE. THIS WOULD FIT INTO THE PATTERN OF POLITICO-MILITARY TALKS WHICH YOU ALREADY HAD IN MIND TO OFFER TO THE SPANISH GOVERNMENT. SUCH A VISIT, WHICH COULD PERHAPS BE COMPRESSED INTO A SINGLE DAY, WOULD OFFER THE OPPORTUNITY TO TALK TO THE SPANISH PRIME MINISTER AND MINISTERS OF DEFENCE AND FOREIGN AFFAIRS ABOUT A WIDE RANGE OF DEFENCE ISSUES INCLUDING OF COURSE RAPIER.
5. IF WE COULD PROPOSE THIS SOON, PERHAPS FOR A DAY IN THE WEEK BEGINNING 19 MARCH (19 MARCH ITSELF IS A HOLIDAY HERE), THIS SHOULD BE SUFFICIENT REASON TO ASK THE SPANISH GOVERNMENT TO HOLD UP ANY COMMITMENT TO OUR COMPETITORS IN THE MEANTIME. AS THE KING POINTED OUT TO ME, NARCIS SERRA COULD HARDLY REFUSE TO RECEIVE MR HESELTINE TO DISCUSS RAPIER WHEN HE HAS JUST HAD A LOBBYING VISIT FROM THE GERMAN MINISTER OF DEFENCE.

PARSONS

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PS/MR. WHITNEY  
PS/MR. LUCE  
PS/PUS  
SIR. J. BULLARD  
MR. WRIGHT  
MR. CARTLEDGE  
MR. JENKINS

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FM MADRID 091630Z MAR 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 158 OF 9 MARCH

INFO IMMEDIATE MODUK (FOR PRIVATE SECRETARY/MR PATTIE AND  
BEAUMONT RMD4) AND IMMEDIATE GOVERNOR GIBRALTAR (PERSONAL)

MY TELNO 156: RAPIER

1. THE KING SUMMONED ME THIS MORNING, OSTENSIBLY TO THANK US FOR OUR ATTITUDE OVER RUIZ MATEOS (YOUR TELNO 91) AND THE WAY YOU HAD REACTED TO MORAN'S APPROACH.
2. THE MAIN PURPOSE, HOWEVER, WAS TO TALK ABOUT RAPIER. THE KING SAID THAT, AS HE HAD LONG KNOWN, HE HIMSELF FAVOURED THE PURCHASE OF RAPIER. THIS WAS NOT FOR ANY PERSONAL INTEREST, THOUGH HE HAD TO BE CAREFUL BECAUSE HIS BROTHER-IN-LAW, KING CONSTANTINE, LIVED IN THE UK. HE GENUINELY THOUGHT THAT RAPIER WOULD BE THE BEST BUY FOR SPAIN. ANGLO-SPANISH RELATIONS HAD FOR TOO LONG BEEN BEDIVILLED BY THE INTRINSICALLY MINOR PROBLEM OF GIBRALTAR. HE WAS MOST ANXIOUS TO BROADEN THEM OUT. RAPIER REPRESENTED THE ONE OPPORTUNITY TO GET INTO CO-PRODUCTION WITH BRITAIN IN THE FIELD OF DEFENCE EQUIPMENT. THERE WERE OTHER QUITE SEPARATE OPPORTUNITIES FOR SIMILAR COOPERATION WITH FRANCE, GERMANY AND THE UNITED STATES. HE HOPED THIS COULD BE USEFUL IN ESTABLISHING AN ATMOSPHERE IN WHICH WE COULD ENTER THE VERY LONG PATH LEADING EVENTUALLY TO PROGRESS OVER GIBRALTAR. THE IMPORTANT REQUIREMENT NOW WAS TO BE SEEN TO BE DOING SOMETHING CONSTRUCTIVE TOGETHER. HE WAS, HOWEVER, AS KING TAKING A RISK IN DECLARING HIS PARTIALITY TO ME SO FRANKLY. HE KNEW WE WOULD RESPECT HIS CONFIDENCE.
3. THE KING CONTINUED THAT THE MISSILE PURCHASE HAD NOW COME TO THE CRUNCH. HE HAD DISCUSSED THE MATTER RECENTLY WITH THE SPANISH PRIME MINISTER AND THE MINISTERS OF FOREIGN AFFAIRS AND DEFENCE (NARCIS SERRA) ON THE OCCASION OF THE CABINET MEETING TWO DAYS AGO AT WHICH HE HAD PRESIDED. THE UK WAS NOW WELL PLACED TO WIN THE RAPIER CONTRACT. THE SECRETARY OF STATE FOR DEFENCE PROCUREMENT (EDUARDO SERRA) WAS ENTIRELY IN FAVOUR AS WAS THE KING HIMSELF. THERE WAS, HOWEVER, OPPOSITION FROM ONE OR MORE MILITARY OFFICERS WHO WERE KNOWN TO BE PLAYING UNFAIRLY BY LEAKING DETAILS OF THE BRITISH AEROSPACE OFFER TO THE FRENCH. NEVERTHELESS IT WAS NOW ACCEPTED BY THE SPANISH GOVERNMENT THAT RAPIER WAS TECHNICALLY JUST AS EFFECTIVE AS ROLAND AND MUCH BETTER IN TERMS OF PRICE AND DEGREE OF INDUSTRIAL COOPERATION OFFERED. THOUGH THE KING COULD GIVE US NO FIRM PROMISE, HE THOUGHT THAT SENIOR SPANISH MINISTERS WERE NOW INCLINED TOWARDS THE PURCHASE OF RAPIER. THE RECENT AMERICAN DECISION TO BUY SHERPA RATHER THAN AVIOCAR WAS NOT (NOT) IN PRACTICE AN IMPEDIMENT TO BRITISH AEROSPACE. MOREOVER, THE STANDING OF THE FRENCH WAS NOW VERY LOW BECAUSE OF THEIR BEHAVIOUR

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TOWARDS

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TOWARDS SPANISH FISHERMEN. THE GERMANS WERE MORE EFFECTIVE COMPETITORS AT THE MOMENT AND THEIR MINISTER OF DEFENCE HAD JUST MADE A LOBBYING VISIT TO MADRID. THE SPANISH MINISTER OF DEFENCE WOULD BE VISITING THE UNITED STATES NEXT WEEK (12-18 MARCH) BUT CHAPPARAL WAS NOT (NOT) A SERIOUS CONTENDER.

4. I THANKED THE KING FOR THIS HELPFUL INFORMATION AND ADDED THAT BRITISH AEROSPACE HAD RECENTLY IMPROVED THEIR OFFER, PARTICULARLY IN THE MATTER OF THE NEW SIX BARREL FIRE UNIT. THE KING SAID THAT WAS FINE BUT THE ISSUE WAS NOW POLITICAL AND GOVERNMENTAL. IT HAD BEEN MADE CLEAR TO HIM RECENTLY BY SPANISH MINISTERS, INCLUDING THE PRIME MINISTER, THAT WHAT WAS NEEDED TO SETTLE FOR RAPIER WAS SOMETHING FROM THE BRITISH SIDE TO SWEETEN THE ATMOSPHERE OVER GIBRALTAR. THAT WAS WHY HE HAD SUMMONED ME. HE WANTED TO ADVISE US TO TRY TO PRODUCE SOMETHING RAPIDLY WHICH WOULD INDUCE THE SPANISH GOVERNMENT TO PURCHASE RAPIER. THE BRITISH PRIME MINISTER'S MESSAGE HAD BEEN WELL RECEIVED. BUT IT WOULD HELP THE SPANISH GOVERNMENT WITH PUBLIC OPINION IF WE COULD NOW INDICATE AGAIN A WILLINGNESS TO TALK ABOUT GIBRALTAR. MORAN HAD ALSO BRIEFED HIM ABOUT THE PROBLEM OVER THE POSITION OF SPANIARDS THERE. WHAT COULD BE DONE?

5. I THANKED THE KING FOR HIS INITIATIVE WHILE POINTING OUT SOME OF THE OBVIOUS LIMITATIONS TO WHICH YOU WOULD BE SUBJECT IN ANYTHING TO BE MADE PUBLIC ABOUT GIBRALTAR. HE SAID HE WOULD BE LEAVING ON 12 MARCH FOR A WEEK IN CANADA BUT WOULD KEEP IN TOUCH WITH ME IN THE MEANTIME IN CASE OF NEW DEVELOPMENTS ON EITHER SIDE.

6. PLEASE SEE MIFT.

PARSONS

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PS/LADY YOUNG

PS/MR. WHITNEY

PS/MR. LUCE

PS/PUS

SIR. J. BULLARD

MR. WRIGHT

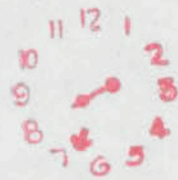
MR. CARTLEDGE

MR. HANNAY

MR. JENKINS

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FM FCO 010909Z FEB 84

TO PRIORITY MADRID

TELEGRAM NUMBER 26 OF 1 FEBRUARY

INFO PRIORITY GOVERNOR GIBRALTAR (PERSONAL)

YOUR TELEGRAM NO 34 AND GIBRALTAR TELEGRAM NO PERSONAL 03:

VISIT OF HMS INVINCIBLE TO GIBRALTAR

1. WE HAVE CAREFULLY CONSIDERED THE POSSIBILITY OF AN ADVERSE REACTION IN SPAIN TO A VISIT BY HMS INVINCIBLE TO GIBRALTAR AND THE IMPLICATIONS FOR OUR DEALINGS WITH THE SPANIARDS OVER GIBRALTAR, FOR RAPIER, AND FOR THE PATTERN OF FUTURE SHIPS' VISITS TO BOTH SPAIN AND GIBRALTAR.

2. IN GENERAL WE ARE VERY RELUCTANT TO PLACE RESTRICTIONS ON OUR MILITARY USE OF GIBRALTAR FOR POLITICAL REASONS ALTHOUGH THERE MAY BE EXCEPTIONAL OCCASIONS WHEN THIS IS NECESSARY IN THIS CASE, PARTLY BECAUSE OF COMPLICATIONS AFFECTING OTHER PARTS OF HMS INVINCIBLE'S DEPLOYMENT, MOD ATTACH GREAT IMPORTANCE TO PROCEEDING WITH THIS PART OF THE PROGRAMME. FURTHERMORE, WE DO NOT WISH THE SPANIARDS TO GAIN THE IMPRESSION THAT THEY HAVE A RIGHT OF REGARD OVER OUR USE OF GIBRALTAR. A DECISION TO ALTER HMS INVINCIBLE'S PLAN WOULD ALMOST CERTAINLY LEAK AND MIGHT BE ATTRIBUTED BY THE SPANIARDS TO THEIR REPRESENTATIONS TO YOU LAST MONTH (YOUR TELELETTER OF 20 DECEMBER AND WILSON'S OF 22 DECEMBER TO YOU).

3. WE HAVE THEREFORE DECIDED THAT ARRANGEMENTS FOR HMS INVINCIBLE TO CALL AT GIBRALTAR ON 12-14 APRIL SHOULD GO AHEAD AS PLANNED. WE ARE CONSCIOUS THAT THE PUBLIC PRESENTATION OF THE VISIT WILL NEED TO BE HANDLED WITH GREAT CARE AND ARE IN TOUCH WITH MOD ABOUT THIS. AS WITH HMS INVINCIBLE'S VISIT LAST SEPTEMBER, WE INTEND TO INFORM THE SPANIARDS, AT A LOW LEVEL, A FEW WEEKS BEFOREHAND. THIS WOULD BE AFTER MY MEETING WITH MORAN ON 20-21 FEBRUARY. MEANWHILE IT IS IMPORTANT THAT THERE SHOULD BE NO PREMATURE LEAKS. WITH THE PASSAGE OF

CONFIDENTIAL

16675 - 1

TIME SINCE THE AUSTRALIA ROW WE WOULD HOPE THAT THE SPANISH RE-  
ACTION WILL BE AS LIMITED AS LAST TIME, BUT CLEARLY THERE CAN  
BE NO GUARANTEE OF THIS.

HOWE

GIBRALTAR

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PS/LADY YOUNG  
PS/MR WHITNEY  
PS/PUS  
SIR J BULLARD  
MR WRIGHT  
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MR CARTLEDGE  
MR HANNAY  
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TO IMMEDIATE FCO LONDON TEL NO PERSONAL 05 OF 27.1.84  
INFO IMMEDIATE MADRID  
IMMEDIATE MODUK  
SAVING RABAT

MOD FOR DS12 AND CFS

MY TEL NOS 15 AND 16: GIBRALTAR ELECTION

1. THE AACR/GLP POLLED WELL, INCREASING THEIR SHARE OF THE VOTES CAST FROM 40 PERCENT IN 1980 TO 45 POINT 7 PERCENT THIS TIME. NO-ONE EXPECTED THE TOTAL COLLAPSE OF THE DPBG, EVEN THOUGH IT WAS WIDELY EXPECTED THAT THE GSLP WOULD MAKE SOME GAINS AT THEIR EXPENSE. BOSSANO PROJECTED HIMSELF AS A STRONG DEFENDER OF GIBRALTAR'S INTERESTS AND MOULDED HIS YOUNG AND INEXPERIENCED COLLEAGUES INTO A VIABLE ALTERNATIVE TEAM.
2. THE POLITICAL POSITION NOW PROMISES TO BE MUCH MORE POLARISED AND DIFFICULT FOR US IN RESPECT OF COMMERCIALISATION OF THE DOCKYARD AND RELATIONS WITH SPAIN INCLUDING DEMANDS FOR SPECIAL PROTECTION FOR GIBRALTAR RELATED TO SPANISH EC MEMBERSHIP.
3. BOSSANO REJECTS THE LISBON AGREEMENT AND HAS NEVER ACCEPTED THE BIPARTISAN POLICY TOWARDS SPAIN CHARACTERISTIC OF THE HASSAN/ISOLA PERIOD. WHEN LAST LEADER OF THE OPPOSITION HE REFUSED CONFIDENTIAL BRIEFING ON THE SPANISH QUESTION. SUBJECT TO YOUR VIEWS, I PROPOSE TO RENEW THE OFFER TO HIM WHEN HE CALLS EARLY NEXT WEEK. I EXPECT HIM TO REJECT IT AGAIN.
4. IN HIS INITIAL COMMENT FOLLOWING THE RESULT, BOSSANO CLAIMED THAT THE COMBINED VOTE OF THE GSLP AND DPBG (51 POINT 6 PERCENT) SHOULD BE SEEN AS REJECTION OF HASSAN'S AGREEMENT WITH HMG ON THE FUTURE OF THE DOCKYARD. GIVEN THE CLOSE LINKS OF THE GSLP AND IGWU (AS WELL AS THE CPSA FOLLOWING MOR'S ELECTION) WE CAN EXPECT THIS ARGUMENT TO BE PRESSED HARD.

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/s.



## CONFIDENTIAL

5. HASSAN'S FIRST COMMENTS WERE (WISELY) RESTRICTED TO POINTING TO HIS OWN PARTY'S SUCCESS WHILST ACKNOWLEDGING THAT A NEW SITUATION EXISTED WHICH REQUIRED STUDY. HE HAS OBVIOUSLY BEEN UNDER STRAIN IN RECENT DAYS BUT WILL DRAW STRENGTH FROM TOPPING THE POLL AND FROM CANEPA GAINING SECOND PLACE. I INTEND TO INVITE HIM TO ACCEPT RE-APPOINTMENT AS CHIEF MINISTER LATER TODAY WHEN HE HAS RESTED. I EXPECT MINISTERIAL APPOINTMENTS TO BE MADE EARLY NEXT WEEK.

6. I RECOMMEND THAT YOU SEND A PERSONAL MESSAGE OF CONGRATULATIONS TO HASSAN. BARONESS YOUNG MAY WISH TO DO LIKEWISE. I DO NOT REPEAT NOT FEEL THAT YOUR RELATIONSHIP WITH ISOLA WARRANTS A FAREWELL MESSAGE, ALTHOUGH I HAVE WRITTEN TO HIM AND OF COURSE TO BOSSANO. HOWEVER, BARONESS YOUNG RECENTLY SAW ISOLA, AND I AM SURE A MESSAGE FROM HER WOULD BE MUCH APPRECIATED BY HIM. IF THIS IS AGREED I RECOMMEND THE MESSAGE CONCENTRATES OF THANKING HIM FOR HIS PAST SERVICES WITHOUT DWELLING ON POSSIBLE FUTURE INVOLVEMENT IN PUBLIC LIFE, AS THIS REMAINS OBSCURE FOR THE MOMENT.

WILLIAMS

(REPEATED AS REQUESTED)

GIBRALTAR

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PS/LADY YOUNG  
PS/MR WHITNEY  
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SIR J BULLARD  
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MR CARTLEDGE  
MR HANNAY  
MR JENKINS 2

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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

MO 5/16

9th January 1984

N. B. P. R.

A. J. C.  $\frac{10}{1}$ 

p.a.

GIBRALTAR - TEMPORARY ENHANCEMENTS

Thank you for your minute of 29th December which I have considered in conjunction with the Prime Minister's comments in her minute of 3rd January.

In your minute you said that you would prefer that the notice arrangements for the Guardship should not be relaxed until after the Gibraltar elections unless there were very strong operational reasons for an earlier change. As I indicated in my earlier minute reversion to 96 hours notice would offer the Navy badly needed flexibility and operational ship time for duties elsewhere during the month of January. I have therefore directed that the Guardship should revert to 96 hours notice forthwith on the understanding that there will be a Naval presence in Gibraltar for at least 2-3 days per week until after the Elections. You indicated that this would go a long way to meet the political problems which you foresee and the Prime Minister was also content. On your final point I entirely agree that it is important both for Gibraltar and Spanish opinion that the normal pattern of regular ships visits to Gibraltar should continue.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Michael Heseltine

The Rt Hon Sir Geoffrey Howe QC MP

Orbitation : Pomy

Px4

9 JAN 1984





3

10 DOWNING STREET

*From the Private Secretary*

3 January, 1984

Gibraltar

The Prime Minister has seen your Secretary of State's minute of 22 December and Sir Geoffrey Howe's reply of 29 December about the enhancements made to the Gibraltar garrison last autumn.

On the assumption that Mr. Heseltine retains his preference for extending the notice for the Guardship, the Prime Minister would be content with the proposal for maintaining a naval presence in Gibraltar for at least 2-3 days a week until after the Gibraltar elections.

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

A. J. COLES

*Ry*

Richard Mottram, Esq.,  
Ministry of Defence



FCS/83/280

SECRETARY OF STATE FOR DEFENCE

Prime Minister

2

Content with the proposal at X,  
 assuming that Mr Heseltine maintains  
 his preference for extending the notice  
 of the Guardship straightaway, rather  
 than after the election?

X - Agreed

GibraltarDMS  
30/12

1. In your minute of 20 December you sought my agreement to relax the period of notice for the Gibraltar Guardship from 8 to 96 hours. I note that you propose to make no alteration at present to the arrangement for stationing two Jaguars and a helicopter at Gibraltar.

2. I have no reason to contest the judgement that there is no longer a military justification for retaining the temporary enhancements to the garrison which were sent at a time of uncertainty owing to the Spanish elections in autumn 1982. But, as you note in your minute, there is also the political factor of the Gibraltar elections to be considered.

3. Sir Joshua Hassan has now decided to go for elections in January and the Governor has announced that they will be held on 26 January. One of the key issues will be the future of the Naval dockyard. It would be most unfortunate if those opposing the plans for commercialisation were able to make capital with an argument that British defence interest in Gibraltar is being reduced by referring to the removal of the Guardship from its present station in Gibraltar. Consequently, if it is operationally possible without imposing severe handicaps elsewhere, I would prefer the change in notice for the Guardship to take place after the elections. If, however, this is impossible, I agree that your proposal for maintaining a Naval presence for at least two to three days per week until after the elections goes a long way to meet the political problems I have mentioned.

X

/4. In



4. In addition I hope that even after the elections it will still be possible to ensure that there is no sudden break in the pattern of Naval visits to Gibraltar. This would help to reassure Gibraltarian opinion during a period which will still be politically difficult because of the run-up to closure of the Naval dockyard at the end of the year. In the Spanish context it would also help to make the point that Naval visits are part of the normal pattern of life in Gibraltar.

5. I am copying this minute to the Prime Minister and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', is centered on the page below the text.

GEOFFREY HOWE

Foreign and Commonwealth Office  
29 December 1983

Erkta' enthallo: Policing At 4







4. I understand that it is probable that an election will be called shortly and held before the end of January and that your Department would prefer the present arrangements to stand until that time. I appreciate the wish to avoid any risk that the question of the notice period might become an issue during the election campaign. I would hope, however, that we could minimise any such risk by planning for a frigate to be in Gibraltar harbour for 2 to 3 days a week over the election period, but otherwise ease the Navy's operational problem by relaxing to 96 hours notice.

5. I hope you will be able to agree.

6. I am copying this minute to the Prime Minister and Sir Robert Armstrong.

*pres. & secy, private secretary*

*[ seen and approved by Mr. Henshaw ]*

Ministry of Defence  
22nd December 1983

12 DEC 1983

GOVERNMENT : Policy Pt 4



23 DEC 1983



MO 5/16

Prime Minister

A. d. C. 19.  
12

CHANCELLOR OF THE DUCHY OF LANCASTER

GIBRALTAR DOCKYARD

Thank you for your minute of 13th December.

2. The position now is that the instructions relating to the closure and commercialisation of the Dockyard have been given to the workforce. The unions have agreed to undertake the work, albeit on a "go slow" and "work to rule" basis. They have also said that the other work in the yard, specifically that on RFA ENGADINE will not be affected. On the strength of that assurance the Flag Officer has given the orders to start work on ENGADINE. This does not mean, of course, that there is absolutely no risk of the refit being disrupted. If it is, we will have to take whatever steps are necessary to safeguard operational interests.

3. Whereas it was undoubtedly right not to start the refit until we had got the unions' reaction to our latest moves, it would not have been feasible, given the assurances that have been received, to have delayed further the start of ENGADINE's refit, or to have removed it from Gibraltar. That would have been exploited to the full by the unions as a breach of faith and would have seriously upset the very delicate local political situation.

4. We shall be keeping a careful eye on the progress of ENGADINE's refit and will not allow it to become a hostage.

5. I am copying this minute to the recipients of yours.

Ministry of Defence

16th December 1983

Gibraltar  
P.L. 4  
P.L. 4

1847



Chancellor of the Duchy of Lancaster

Prime Minister.

A.S.C. 9/12.

SECRETARY OF STATE FOR DEFENCE

GIBRALTAR DOCKYARD

I have seen your minute of 12 December to the Prime Minister.

I assume that RFA ENGADINE will not in fact put in to Gibraltar until these matters are resolved. It would be an unacceptable situation if she could be pinned down in Gibraltar by the Unions as a hostage.

I am sending copies of this minute to the other recipients of yours.

A C

13 December 1983

13 December, 1983

Gibraltar Dockyard

The Prime Minister has noted the contents of your Secretary of State's minute of 12 December.

A.S. COLES

Richard Mottram, Esq.,  
Ministry of Defence

for



Prime Minister.

MO 5/16

The "impasse" referred to in  
paraph 2 was, I am afraid, news to  
me.

A.S.C. 12/12.

MT

PRIME MINISTER

GIBRALTAR DOCKYARD

You will wish to be aware of the latest developments in our plans to close the naval dockyard in Gibraltar and proceed with commercialisation.

2. As you know there has been an impasse in Gibraltar for some months now. Although an agreement was made with the Government of Gibraltar in July, A&P Appledore, the prospective commercial managers, have been unable to enter the dockyard and physical preparations have not yet begun. A general election must take place in Gibraltar before mid March next year, at the latest and the dockyard closure will be the central issue. Joe Bossano, the leading TGWU official in Gibraltar, is also a member of the House of Assembly and is likely to fight the election on a platform of opposition to closure.

3. We have now reached the stage where work must begin on preparing the dockyard for closure if the timetable is to be maintained. However, this work is "blacked" by the TGWU, and if orders are issued for it to begin there is a strong possibility that the workforce will refuse to carry them out. Employees would then be suspended without pay and strike action could follow. Should essential services be affected Servicemen might have to be used to provide cover, and my department has contingency plans for this.

4. I have decided that we must now go ahead with the issue of orders for rundown work. The timing is determined by political factors, such as avoiding House of Assembly sessions and the onset of the Christmas



period, and operational reasons. The dockyard is presently empty for a short period between the departure of RFA BLACK ROVER and the arrival of RFA ENGADINE. The Governor of Gibraltar, the Chief Minister and the Flag Officer Gibraltar all agree that we should go ahead now, and I have today authorised the Flag Officer to talk to the unions on Tuesday 13th December with a view to work beginning the following day. \_\_\_\_\_

5. John Lee is attempting to see Mick Martin and Alec Kitson of the TGWU. Their role though significant is however unlikely to be crucial should a confrontation develop.

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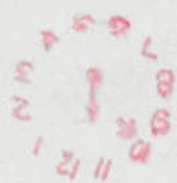
6. I am copying this to OD colleagues, the Secretary of State for Employment, and to Sir Robert Armstrong.

*WJA*  
Ministry of Defence

12th December 1983



GIBRALTAR  
Pdlms  
Pr4



11 12 1  
SR  
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2 DEC 1983

HOUSE OF LORDS,  
SW1A 0PW

*With the  
Lord Chancellor's Compliments*



HOUSE OF LORDS,  
SW1A 0PW

21 November 1983

Our Ref: EI38/18/3

The Right Honourable  
Sir Geoffrey Howe QC, MP  
Principal Secretary of State  
for Foreign & Commonwealth Affairs  
Foreign & Commonwealth Office  
London S.W.1

*nbpm  
DMS  
2/11*

*My dear Geoffrey,*

Commercialisation of the Gibraltar Dockyard

Thank you for your minute of 15th November setting out the position with regard to state aids to the Gibraltar Dockyard.

As you know, the matter which has always concerned me most has been the possibility that, if the matter did eventually get to the European Court and resulted in an adverse judgment, you might feel that we should act in defiance of that judgment. You now state in paragraph 2 that the risk of the matter ever reaching the Court is remote in the extreme, and that you see no need to argue the matter to a finish now. I certainly do not wish to labour the point, but I hope that if your optimism turns out to be unjustified, and the matter does reach the European Court, you will keep me informed, because this is a question to which we would then have to return.

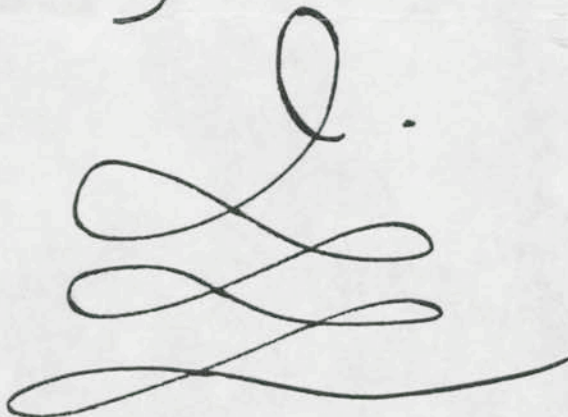
The remainder of your minute is concerned with the tactical question of notification of the aid under Article 93 of the EEC Treaty. As you know, this is a matter in which I have always disclaimed any particular expertise. The arguments which I put forward in my letter to you of 25th July I described as plausible, but I recognised at the

/same time

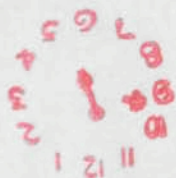
same time that strong arguments could be mounted the other way. Since these arguments were addressed to the possibility of the case reaching the European Court there is no point in my attempting to expand on them now. The most that I can usefully say is that the course advocated in your minute seems to me to be sensible, but that on such a technical matter I would defer to the views of our colleagues who have more experience of state aids.

I am copying this letter to the recipients of your minute.

yours:

A handwritten signature in black ink, consisting of a large, stylized initial 'L' followed by a series of loops and a long horizontal stroke extending to the right.

Subrattar : Policy towards Pt 2



21 NOV 1983

CONFIDENTIAL

1) JIF - to see  
2) pa.

CONFIDENTIAL UK COMMS ONLY  
CYPHER CAT A

IMMEDIATE 181730Z NOV 83  
FROM GIBRALTAR  
TO FCO LONDON TEL NO PERSONAL 143 OF 18.11.83  
AND IMMEDIATE TO MOD FOR CFS  
CONFIDENTIAL

GIBRALTAR DOCKYARD

1. IT IS THE POLICY OF BOTH THE BRITISH AND GIBRALTAR GOVERNMENTS TO ACHIEVE A SUCCESSFUL COMMERCIAL DEVELOPMENT OF THE RN DOCKYARD
2. TO THIS END THE FLAG OFFICER AND HIS STAFF HAVE SO FAR AVOIDED CONFRONTATION WITH THE TGWU WHO ARE BLACKING ANY ACTION TO FACILITATE APPLIEDORE'S MOVE INTO THE YARD. IF, HOWEVER, EMPLOYMENT IS TO BE MAXIMISED FROM THE OUTSET, PREPARATORY PHYSICAL WORK WITHIN THE YARD DURING THE PERIOD OF RN DIRECTION MUST BE TAKEN SO THAT CERTAIN FACILITIES MAY BE ABANDONED AND OTHERS TRANSFERRED OR MODIFIED. THIS HAS SO FAR NOT BEEN POSSIBLE GIVEN THE CONTINUED OPPOSITION OF THE TGWU. AS A RESULT WE ARE NOW IN A POSITION THAT UNLESS CERTAIN PRACTICAL STEPS ARE TAKEN QUICKLY WE SHALL FALL BEHIND ON THE CRITICAL PATH TO COMMERCIALISATION AND WILL NOT BE ABLE TO CATCH UP AND PROVIDE THE FULLEST JOB OPPORTUNITIES FROM THE START OF THE COMMERCIAL VENTRE.
3. IF THIS LOG JAM IS TO BE BROKEN THE FLAG OFFICER WILL VERY SHORTLY NEED TO GIVE SPECIFIC DIRECTIONS FOR WORK TO BE UNDERTAKEN IN THE DOCKYARD IN RELATION TO CLOSURE, COMMERCIALISATION AND NAVL BASE RE - LOCATION. YESTERDAY SOME 700 TGWU MEMBERS LEFT WORK WITHOUT PERMISSION TO ATTEND AN UNOFFICIAL UNION MEETING. THEY OVERWHELMINGLY SUPPORTED AN ANTI - COMMERCIALISATION MOTION FROM NETTO AND BOSSANO. THUS IN THEIR CURRENT MOOD TGWU ARE LIKELY TO REFUSE TO OBEY THESE DIRECTIONS. RED BOOK ACTION WOULD THEN HAVE TO BE TAKEN WITH THOSE CONCERNED BEING TAKEN OFF PAY.
4. I HAVE DISCUSSED THIS FULLY WITH HASSAN WHO AGREES THAT SUCH A CONFRONTATION IS INEVITABLE. WE HAVE CONSIDERED TOGETHER THE MOMENT WHICH WOULD BE LEAST DAMAGING POLITICALLY AGAINST THE BACKGROUND OF HIS OWN PLANS FOR MEETINGS OF THE HOUSE OF ASSEMBLY AND ELECTONS WE HAVE AGREED THAT THE WEEK BEGINNING 28 NOVEMBER IS THE MOST SUITABLE, AND SUBJECT TO YOUR VIEWS I PROPOSE TO INSTRUCT FLAG OFFICE GIBRALTAR ACCORDINGLY. THIS WILL MINIMISE INVOLVEMENT OF GIBRALTAR GOVERNMENT AND APPLIEDORES.

CONFIDENTIAL

/ 5. HASSAN

CONFIDENTIAL

5. HASSAN HAS ASKED ME TO BRIEF THE MEMBERS OF THE GIBRALTAR COUNCIL GENERALLY ON THIS ISSUE AT OUR MEETING ON 22ND NOVEMBER. HE WISHES HIS COLLEAGUES TO UNDERSTAND AND SHARE IN A DECISION WHICH COULD GIVE RISE TO WIDESPREAD POLITICALLY - MOTIVATED TRADE UNION ACTION.

6. GRATEFUL FOR YOUR APPROVAL TO LINE PROPOSED IN TIME FOR GIBRALTAR COUNCIL MEETING AT 10.30AM LOCAL ON 22 NOVEMBER.

WILLIAMS

GIBRALTAR

LIMITED  
SED  
DEF D  
NEWS D  
PUSD  
ECD(E)  
PLANNING STAFF  
MAED  
PS

PS/LADY YOUNG  
PS/MR WHITNEY  
PS/PUS  
SIR J BULLARD  
MR WRIGHT  
SIR C TICKELL  
MR CARTLEDGE  
MR HANNAY

ADDITIONAL DISTRIBUTION  
GIBRALTAR

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FCS/83/233

N. S. J. R.

LORD CHANCELLOR

A. J. C. - 15/11.

Commercialisation of the Gibraltar Dockyard

1. I am very sorry not to have been able to reply earlier to your letter of 25 July, commenting on my minute of 15 July to Michael Heseltine on whether or not we should notify to the European Commission the aid we propose to grant to Gibraltar. Since you wrote, I have now also seen the Attorney General's advice in his minute to me dated 7 September, for which I was grateful.
2. I note your reluctance and that of the Attorney General to go along with the idea that we might have to proceed with this aid even in the face of an adverse judgement of the European Court. The risk of the matter ever reaching the Court is, as I said in my minute of 15 July, remote in the extreme. Moreover, recent developments - to which I return below - have served to reduce the risk still further. In any case, I continue to believe that, if the worst nonetheless came to the worst, it would be politically impossible for us to terminate assistance to the Gibraltar dockyard if this risked the effective extinction of the colony's economic future. I accept the force of the broader arguments of principle which you invoke and which point in the opposite direction, but see no need to argue the matter to a finish now.
3. My officials have been giving careful consideration to the other points which you and the Attorney General have raised. But in the meantime, events have moved on in Brussels. The Commission have told us informally that they have received a complaint from the Shipbuilders and Shiprepairers Independent association (SSIA) and that Commissioner Andriessen replied to this on 8 September asserting that:

/(a)





- (a) the measures do not fall within the scope of the Fifth Shipbuilding Directive and are therefore not subject to the notification and scrutiny procedures provided for under its terms;
- (b) the assistance is in any case covered by Article 223 of the Treaty of Rome.

The Commission's arguments are of course not entirely watertight (indeed they appear based in part on the mistaken belief that the funds involved come from the Ministry of Defence) and it is just possible that they might reverse their position if they came under great pressure. But this is nevertheless a very helpful development, which I believe makes it clear both that the judgement on grounds of policy not to notify this aid was right, and that we should not notify it now. Had we notified, we can be sure that the Commission would not have taken such a helpful line with the SSIA. The Commission have evidently chosen to treat our earlier informal contact with them as precisely the kind of notice of our intention not to notify which you recommended in your letter, and have on this basis decided - as we hoped - not to pick a fight with us if they can possibly avoid one. If we were to notify now, they would see this change of course as putting them in a very embarrassing position; their interpretation of Community law would be undercut and they would be made to look foolish. They would probably feel bound, in circumstances in which they had wrongly advised an outside complainant, to process the notification with some rigour. In short, notification in the light of what we now know could precipitate major and quite unnecessary difficulties.

4. I have carefully weighed up the risks that the PAC could criticise or challenge the legitimacy of providing aid money to the Gibraltar Government without it having been formally notified. That risk seems to me to have been considerably reduced, now that the Commission have taken the view that the aid is not notifiable. There is a range of arguments which



could be deployed to justify non-notification and the specific one which you suggest is a helpful addition (although I note the Attorney General's view to the contrary). We might in the last resort have to draw a distinction (though not a very comfortable one) between the disbursement of aid without Commission clearance and the legitimate transfer of money to the Gibraltar Government by HMG - the use of the money by the Gibraltar Government thereafter falling outside the PAC's purview. In general, I find it difficult to conceive of circumstances in which we would be exposed to PAC criticism and do not think that we should let this deflect us from the course of action which in all other aspects makes excellent sense.

5. The Attorney General warns of a number of other undesirable legal consequences which might result if either the Commission were forced to look into the matter more closely or an aggrieved party took action independently. We have always recognised that there are risks inherent in whatever course of action we adopt. But I remain convinced that the best prospect of avoiding trouble lies in the strategy proposed in my minute of 15 July.

6. Our first task must be to help the Commission stick to their guns. The SSIA's detailed reply has exposed the weaknesses of the argumentation in Andriessen's letter of 8 September, and the Commission have hinted that they would welcome informal advice from us on how to reply. I therefore propose to ask my officials, together with officials and experts from other departments concerned, to consider what arguments we could usefully convey to the Commission to help them deal with the SSIA enquiry and close their files on the whole matter.

/7. I am



7. I am copying this minute to the Prime Minister, other members of OD, Timothy Raison, the Attorney General and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office  
15 November 1983



de ve

10 DOWNING STREET

*From the Private Secretary*

20 October 1983

The Prime Minister has noted the contents  
of your letter of 20 October about Gibraltar.

AK

Brian Fall, Esq.,  
Foreign and Commonwealth Office.

NR

*✓ Sir Al.*

Foreign and Commonwealth Office

②

London SW1A 2AH

20 October 1983

*Prime Minister**mb**A. J. C. 20/10**Dear Sir*Gibraltar

Thank you for your letter of 17 October giving the Prime Minister's comments on my letter of 11 October which contained some of our preliminary thinking about ways of getting the Spaniards to lift the remaining restrictions on Gibraltar.

The Prime Minister queried what we would gain in return for giving certain EC rights to Spain in advance of accession, or in return for other similar moves on our part. The scheme we have been considering is one in which any such moves on our side would only be made in return for the Spaniards lifting all their remaining restrictions on Gibraltar. If they do so there will then be normal movement across the border between Gibraltar and Spain for everyone, including tourists. Gibraltar airport could also be used in a normal way without extraneous restrictions. One result would be that tourism could then be developed both to the advantage of Gibraltar and of nearby areas of Spain.

*They will resist this*

As I pointed out in my earlier letter, our thinking on all these points is still at an early stage. A key element in adopting the strategy we have been considering is to make sure that we could carry with us Sir Joshua Hassan and Gibraltarian leaders. The Foreign and Commonwealth Secretary hopes to discuss the whole problem during a private meeting with the Chief Minister when the latter is in London on private business between 13 to 17 November. One of the matters which he proposes to raise with Sir Joshua is whether it would be advantageous to make minor alterations in Gibraltar's legislation to guarantee Spaniards certain rights in Gibraltar by law which they now already enjoy in practice: a point which you said that the Prime Minister had queried. Any such alterations to Gibraltar's legislation could, of course, only be made with the approval of the Gibraltar Government.

*However,*  
*J*(B J P Fall)  
Private SecretaryA J Coles Esq  
10 Downing Street

Sibrattar: Bligg towards Pt 4

Post Office, Sibrattar, Greenland

220 OCT 1923

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4 5 6 7 8 9 10



CONFIDENTIAL



HL

10 DOWNING STREET

*From the Private Secretary*

17 October 1983

Gibraltar

The Prime Minister has seen your letter of 11 October about the possibility of conceding to the Spaniards, in advance of Spanish accession to the European Community, some of the rights in Gibraltar which they would obtain on joining the Community.

With regard to paragraph 3 of your letter, the Prime Minister has asked what Gibraltar would gain in return for the concessions to Spain which are envisaged. Would we, for example, seek to obtain Spanish agreement to the free movement of tourists between Gibraltar and Spain and/or Spanish acquiescence in unrestricted use of the Gibraltar airfield?

Mrs. Thatcher has also queried the suggestion in your final paragraph that Gibraltar's legislation might be changed in order to give the Spaniards certain treatment as of right which they currently enjoy by administrative arrangement.

It would be helpful if in due course you could let me have a further account of your thinking dealing inter alia with the points which the Prime Minister has raised.

A. J. COLES

Sc

Brian Fall, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL



Foreign and Commonwealth Office

Prime Minister

London SW1A 2AH

*This answers questions which you raised on an earlier paper.*

11 October 1983

*A. J. C. 11/10*

*Dear Sir,*

Gibraltar

Thank you for your letter of 24 September about the line the Foreign and Commonwealth Secretary proposed to take on Gibraltar in his meeting with the Spanish Foreign Minister on 26 September. You asked what particular rights we had in mind when Sir Geoffrey referred in his minute of 19 September to the possibility that Spaniards might be given, in advance of accession, some of the rights they will obtain on joining the Community.

A key factor in considering any move of this sort will be, as Sir Geoffrey noted in his minute of 19 September, to ensure that it has the full support of Sir J Hassan. The Governor of Gibraltar is returning to London for consultations on 25 October. Sir Geoffrey proposes to discuss with him then arrangements for a meeting with Sir Joshua, preferably without publicity, in which he could talk personally to the Chief Minister about the whole problem of restrictions and how best to create conditions in which they will be lifted before they do further damage to the Gibraltar economy.

The attached paper sets out some of the key areas in which Spaniards will have new rights in Gibraltar as a result of joining the Community and compares them with the present situation. It might be possible to offer some or all of these rights in advance of actual membership as part of an arrangement under which the Spaniards would, at the same time, lift the remaining restrictions on Gibraltar. Our thinking on how this might be achieved is still at a very early stage. The most promising areas for progress seem to be rights of establishment and to provide services together with some, but not all, of the rights covering non-discrimination in benefits for workers. In some areas, most notably the abolition of work permit controls on Spaniards in Gibraltar, it is clear that there will be no room for movement. This is a matter of particular sensitivity for Gibraltarians. However, free movement of labour is also an area where the new rights acquired by Spaniards

/on joining

*What does  
Gibraltar  
gain? Free  
movement  
of labour?  
Rights to  
land on the  
air-sea?*





CONFIDENTIAL

on joining the Community will be subject to a long transitional period, probably of seven years: consequently, it is not a right which the Spaniards would automatically enjoy on accession.

Another area where there might be useful room for manoeuvre is making presentational changes to some of Gibraltar's legislation which would have the effect of giving Spaniards certain treatment as of right which they currently enjoy by administrative arrangement. The only item we have so far identified in this category is the right to stay overnight in Gibraltar. Although now allowed in practice, it was formerly denied to Spanish workers and is a matter of considerable psychological importance to the Spaniards.

*Handwritten:*  
Now over  
J.P.

(B J P Fall)  
Private Secretary

A J Coles Esq  
10 Downing Street

CONFIDENTIAL



GIBRALTAR: ANALYSIS OF EC RIGHTS AND PRESENT RIGHTS OF SPANIARDS

Introduction

1. This paper examines the main rights of EC nationals in Gibraltar, and the present difference in treatment (if any) of Spaniards. Comment is given under each heading on the possible value to Spain of obtaining EC-type rights in advance of accession, and the implications for Gibraltar.

2. Some 250 Spanish nationals have continued to live and work in Gibraltar since the frontier was closed in 1969. Since partial opening of the frontier to pedestrians in December 1982 a few additional Spaniards have found employment.

A. Rights of establishment and freedom to provide services

3. EC Rights

To enter Gibraltar freely to settle or to render a service and to buy land or property on same basis as Gibraltarians.

4. Present practice for Spaniards

- (a) Must obtain entry and residence permits, latter being issued only to those with work permits.
- (b) May only purchase land or property if they form a limited company in Gibraltar; or, with Governor's consent, if they have been resident in Gibraltar for 15 years.

5. Comment

For Spain EC rights would represent a significant advance on present practice.

For Gibraltar These rights will have to be applied to Spaniards on accession (no transitional period). Some fear of 'swamping' by Spanish commercial competition (cf free entry of EC banks now being controlled by economic need criterion, in contravention of EC rules). But lack of available property will limit inflow: so will derogation granted to Spain to limit capital outflows (see para 17 below). No significant financial implications if rights given to Spaniards in advance. Limited legislative action required.

6. Conclusion Possible area for giving Spaniards rights in advance of accession at little real cost to Gibraltar.

/B.



B. Freedom of Movement of Labour

7. EC rights

- (a) to enter to seek work freely;
- (b) non-discriminatory terms of employment;
- (c) equal trade union rights;
- (d) access to education and training for children;
- (e) equal access to housing.

8. Present practice for Spaniards

- (a) Free entry: Spaniards may only enter to look for work as short stay visitors.
- (b) Terms of Employment: Spaniards need work permits but are otherwise guaranteed same pay and conditions of work as Gibraltarians by practice (not law), and, in common with all workers, are protected against unfair dismissal (by law).
- (c) Trade Union Rights: Rights of non-resident Spanish workers are limited in that they may neither vote on nor lead strike activity, and eligibility for senior union office is circumscribed.
- (d) Education: Free education available to all residents of Gibraltar, but not to families of non-resident workers.
- (e) Housing: Any permanent resident of Gibraltar eligible to apply for government-owned housing.

9. Comment

For Spain Rights under his heading have so far been the key issue in attempts to press for 'equal' treatment before agreeing to lift restrictions.

For Gibraltar Free movement of labour very sensitive because of fears of local unemployment after dockyard closure and of undercutting of wages. Impossible to move more quickly than rest of EC on abolition of work permit controls (EC will probably settle for 7 year transitional period). But Spanish residents of Gibraltar currently enjoy rights at 7 b, c, d and e (with the key exceptions that they require permits to work).

/ May be



May be some scope for extension of some of these rights to non-residents. Amendments to Immigration Control, Control of Employment, and Trade Unions and Trade Disputes (Conciliation and Arbitration) Ordinances would be required.

10. Conclusion No room for movement on working without permit prior to accession (and probably before end of transition period). Some room for movement on other rights in this category.

C. Social Security and Medical Benefits

11. EC Rights

- (a) equal treatment for contributory benefits (including pensions) and non-contributory pensions;
- (b) unemployment benefit for 13 weeks;
- (c) family allowances payable for frontier workers;
- (d) families of non-resident workers to be eligible for medical treatment in Spain at Gibraltar's expense, or in Gibraltar.

Though negotiations have not been completed, these obligations are in general expected to take effect on accession, without any transitional period.

12. Present Practice for Spaniards

All workers in Gibraltar, resident or non-resident, pay full Gibraltar tax. Equal treatment, except that:

- (a) families of non-resident workers not eligible for free medical and hospital treatment;
- (b) family allowances paid only when families are resident in Gibraltar;
- (c) pensions payable to non-resident Spaniards (e.g. those who worked in dockyard before closure of frontier) are not increased in line with increases in Gibraltar rates.

13. Comment

For Spain EC rights will provide important benefits for pensioners and in eligibility of non-resident families for family allowances and medical treatment.

For Gibraltar Full advance implementation of all EC rights under this heading would impose very high financial costs on

/Gibraltar



Gibraltar, out of proportion to the political value to Spain of the concession. Pensions a particularly serious worry; we are already discussing with the Commission ways in which the liability arising on accession might be alleviated.

14. Conclusion Advance movement on pension rights extremely costly for Gibraltar: therefore not an attractive option. Room for manoeuvre on other rights under this heading (particularly given that non-resident workers pay same taxes as residents) but may be difficult to disentangle them from pensions.

D. Free movement of capital

15. EC rights

EC requirement to comply with acquis on free movement of capital.

16. Present practice

Spain - unlike Gibraltar - currently maintains exchange controls, with tight limits on outward investment.

17. Comment

For Spain Difficult to apply in advance of accession. Already granted a five year derogation on capital outflows for property investment and a three year derogation for the purchase by Spaniards of foreign securities traded at a stock exchange.

For Gibraltar Easy. No exchange controls. Effect of derogation for Spain will limit Spanish purchase of property in Gibraltar.

18. Conclusion Cost free for Gibraltar. Very unattractive to Spain. Might therefore be traded against Social Security rights in C. above as part of a package of EC rights minus some elements.

E. Transport

19. EC rights

EC requirement that Spanish driving licences be recognised without a Gibraltar driving test, and coach tour operators be allowed in without a licence.



20. Present practice for Spaniards

Spanish licences recognised in Gibraltar for first 3 years of residence, but only for private driving.

21. Comment

For Spain could be useful presentationally.

For Gibraltar an easy gesture.

22. Conclusion No real problems in giving rights in advance. But of little significance.

Gibraltar Policy Pt 4

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CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

24 September, 1983.

Gibraltar

The Prime Minister has seen the minute of 19 September by the Foreign and Commonwealth Secretary describing the approach which he intends to take with the Foreign Minister of Spain when he meets him at the General Assembly next week.

Mrs. Thatcher is content with the approach described in paragraphs 10-14 of the minute, though she has commented that she believes that the Chief Minister of Gibraltar will be concerned at its implications in advance of his elections.

With regard to the reference in paragraph 11 to the advance enjoyment by Spain of some of the rights that they will obtain on accession to the Community, the Prime Minister has asked which rights we have in mind.

I am sending copies of this letter to Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

R.B. Bone, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL



MR. COLES ✓

GIBRALTAR

I have studied the attached copy of the Foreign Secretary's minute to the Prime Minister of 19 September. I discussed this question with the FCO last week. I am impressed by paragraph 6. I can easily envisage a situation, in less than a year's time, when our Community partners start to bring pressure on us to make some concession to Spain in order to facilitate the latter's entry to the EEC. This is a situation which we must avoid if possible. Hence, I think that the cautious attempt to move the present deadlock off dead centre, as proposed by the Foreign Secretary, would be well justified.

ASP

A.D. PARSONS  
20 September 1983

Prime Minister

The Foreign Secretary's minute is attached.

He is seeing the Spanish Foreign Minister in New York on Monday.

Content that he should pursue the approach described in paragraphs 10 to 14?

Yes - but I thought we already had a paper about A-J.C. 23 the effect of accession 19. 2 - Gibraltar.  
I think Hallan will be worried about the approach that side of his election job



cc AH  
AJC or  
2 PPs

PM/83/71

PRIME MINISTER

Gibraltar

1. When in Madrid on 6 - 7 September for the CSCE closing session I took the opportunity, as planned, to discuss the Gibraltar question with the Spanish Foreign Minister. I also discussed Gibraltar more briefly when I met the King and the Prime Minister.

2. The meeting with Sr Moran followed the lines envisaged in my minute of 1 September. It was a useful first contact and enabled me to explore present Spanish thinking on Gibraltar. Moran was clearly determined to improve the tone of discussion about Gibraltar and to make amends for the atmosphere created during his visit here in March. But, although the atmospherics were greatly improved, the substance of the Spanish position has not changed. Moran said that, although he did not like the 1980 Lisbon agreement, he was prepared to keep it as a framework for dealing with the issue. But he continued to take the line that there was still a need for "clarification" of the British side of the undertakings in the agreement. He insisted that it was a political and practical impossibility for him to carry out the Spanish undertaking to remove restrictions without something to show in return. In effect he was arguing that the Spaniards could not implement their part of the Lisbon agreement unless they had some additional face-saver.

3. For my part I restated our willingness to implement the agreement reached at Lisbon in 1980. I emphasised our commitment to the Gibraltarians. Their views and wishes were the key element. I also stressed the need to improve the context in which the whole issue was discussed by practical

measures



measures such as economic steps to benefit those on both sides of the frontier. But such beneficial changes could only come about with the lifting of restrictions. I tried also to persuade Moran to see Spanish accession to the Community as a way in which some of the more contentious issues, such as the treatment of Spaniards in Gibraltar and vice versa, might be handled.

4. I conclude from this meeting, and from the other indications we have had about Spanish attitudes, that the prospects of getting the present Spanish Government to lift the restrictions on Gibraltar, using only the formula which had been agreed last year with their predecessors for implementing the Lisbon agreement, are very poor.

5. The British interest, it seems to me, can be summed up as follows:

- (i) in Gibraltar itself, to get the remaining restrictions lifted, without of course paying any undue price to Spain or forfeiting the confidence of the Gibraltar Government and people;
- (ii) to keep to the timetable for Spanish entry into the European Community, ie conclusion of the negotiations before the end of 1984 and actual entry on 1 January 1986 (this is the last possible date within the life-time of the present Spanish Parliament and the deadline which the Spanish Government has set if Spain is not to lose interest in membership); and
- (iii) to ensure if possible that the referendum on NATO membership, which the Spanish Government intend to hold, probably in 1985, goes the right way.

6. Point (i) speaks for itself. As to (ii) it is clear that the final stages of negotiating the terms of Spanish entry into the Community create a two-edged weapon. At present we have the Commission and Community partners with us in maintaining that the restrictions on imports and the free movement of people



are incompatible with Community obligations. We ourselves have made it clear that simply because of the nature of these obligations Spain would not be able to accede to the Community while the restrictions on Gibraltar remain in force. This is a useful form of pressure on the Spaniards. But, whatever the legal position, all our experience in other Community negotiations must make us doubt if we could keep our Community partners with us if disagreement about Gibraltar were the only matter holding up Spanish entry into the Community. If we came to that point, our partners would start looking to us to "show flexibility", ie to make concessions, to buy Spain's compliance with EC obligations. If we maintained our veto and Spain failed to join the Community, our partners both inside and outside the Community would see this in itself as a major setback for Western interests for which we should be blamed. Although in the last resort we would have an entirely justifiable case for a veto, I believe that our interests and those of Gibraltar would be much better served if we can avoid the issue being posed so starkly.

7. As to point (iii), the outcome of Spain's efforts to join the European Community will also affect her membership of NATO. This is a matter of great political and strategic interest to the West. The present Spanish Government is against participation in the integrated military structure and equivocal about continued membership of the Alliance itself. The Prime Minister probably favours membership while the Foreign Minister is opposed. A majority of public opinion appears at present to be against continued membership. One reason for delaying a promised referendum on the subject until 1985 is probably Sr Gonzales's hope that, by then, public opinion may have changed in the light of Spain's acceptance as a member of the European Community. There can be no guarantee that a referendum will go in favour of membership of NATO even if Spain is by then a member of the Community. But it is a virtual certainty that the result will be unfavourable if EC accession has foundered on the Gibraltar problem. We must, if at all possible, avoid a situation which will stack the cards



against a favourable outcome on a matter of such great importance to ourselves and our allies and for which we, however unfairly, would be partly blamed. We must also do our best to avoid exposing ourselves to heavy pressure from our allies, particularly the Americans who have invested a great deal in encouraging Spain to join NATO, to make concessions over Gibraltar in order to improve the chances of Spain remaining in the Alliance.

8. The time when we can expect these pressures to build up seriously is now less than a year away. The EC accession time-table means that, before autumn 1984 when the Accession Treaty should be signed if accession is to take place on 1 January 1986, we must, at the very least, have public and bankable assurances from the Spaniards that they will lift restrictions before the date of accession. The signing of the Accession Treaty will be only a few months before the 1985 NATO referendum. The two will inevitably be seen as closely linked. Time is therefore short if we are to get the frontier restrictions lifted.

9. These considerations lead me to believe that the time has now come to tackle the task of creating conditions in which the present Spanish Government will steel themselves to lifting the restrictions on Gibraltar. It is clear - if only because of the change of Government - that it is no longer enough to wait, as we have been doing, for Spain to implement the bargains struck between the then Foreign Ministers of Britain and Spain in April 1980 and clarified when the then Spanish Prime Minister came here in January 1982. But, in considering the pressures of the time-table discussed above, we must not lose sight of the first objective, which is to retain the confidence of Gibraltarian opinion and carry Sir Joshua Hassan with us in anything we do. An important factor here is the elections in Gibraltar which are due by March 1984 at the latest and which will probably be held early next year. With a generous solution of the dockyard issue in his pocket, Hassan is now in a much better position to face these elections than he was a



few months ago. But the period before the elections is still likely to be a time of particular political sensitivity for him. We must take this fully into account in our dealings with the Spaniards.

10. During my meeting with Moran in Madrid we agreed to meet again in New York during the week of 26 September when we will both be there for the General Assembly. At that meeting I believe that our interests would be best served if I were to suggest that we should examine further ways in which the 1980 Lisbon statement could be brought into effect, and restrictions lifted, before the Gibraltar problem begins seriously to complicate the process of Spanish accession to the EC. I envisage this being done by two general approaches. First, discussions by experts on the implications for Gibraltar/Spain of Spanish entry to the Community, and second, exploratory talks between our Ambassador and the Spanish MFA.

11. Discussions on EC matters would explore whether Spain's forthcoming entry to the Community might be used as a means of providing Spain with the presentational justification for lifting restrictions well in advance of actual accession. We should have to work to lower present Spanish expectations of what can be achieved in this way. But, in the light of these discussions, it might subsequently be possible, for example, to reach agreement that, in return for the lifting of restrictions, Spain could enjoy some of the rights they will get on accession in advance of the actual accession date. These cannot include immediate free movement of labour (a present Spanish demand which is a very sensitive issue for the Gibraltarians) since that will be subject throughout the Community to a long transitional period, probably of 7 years. Such an approach might provide a face-saving way out for Spain at minimal cost to Gibraltar. The same talks would be used to explain to the Spaniards in detail why their present restrictions are legally incompatible with their Treaty obligations, although this is a subject on which it is tactically most effective for the Community (ie the Presidency

*Push as  
what?*



and the Commission) to make the running for us.

12. The purpose of the other talks, between our Ambassador and the Spanish Ministry of Foreign Affairs, would be to discover whether the political will exists on the Spanish side to lift restrictions and, if so, to identify ways in which the Spaniards' concern about the problems they face in terms of public presentation might be met. These discussions might tie in with the talks on EC matters if the EC context looked like providing the right way forward. Alternatively, they might show that we can only make progress through an approach which would achieve the objectives of the Lisbon agreement by a similar process of linked moves by both sides but getting away from sterile arguments about the precise meaning of the various undertakings in that document. It might be possible, for instance, to think of a parcel of practical measures which would allow for resumed communications between Spain and Gibraltar by land, sea and air, and also improve the status both of Spaniards in Gibraltar and of Gibraltarians in Spain, without confronting head-on the delicate and emotional issues which have so far prevented the Lisbon agreement from being implemented. It might also be possible to identify and open up ways of practical economic co-operation - for example in tourism - that could help to take matters forward. We are currently giving further thought to all this.

13. In this same context, if the Spaniards again put forward the use of Gibraltar airport and competition with Malaga as serious obstacles to lifting restrictions, I would point out that our previous offer of technical talks on air services remains on the table.

14. In identifying possible ways forward we would, as I say, have to make sure that we carry Sir J Hassan with us. This means keeping him closely informed in confidence of what we are doing, making progress with the Spaniards where we can, but

/accepting



accepting and getting the Spaniards to accept that in some areas we may not be able to take any concrete action until after the Gibraltar elections. We should insist meanwhile that any discussions with the Spaniards are purely exploratory and that they should be conducted in a low key manner through normal diplomatic channels.

15. I am copying this minute to Michael Heseltine and to Sir Robert Armstrong.

Foreign and Commonwealth Office  
19 September 1983



Gibraltar : Policy toward Gibraltar A. 4

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19 SEP 1983

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GRS 620  
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FM MADRID 071829Z SEPT 83  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 514 OF 07 SEPTEMBER  
AND TO PRIORITY GOVERNOR GIBRALTAR (PERSONAL), UKDEL NATO,  
UKREP BRUSSELS

FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE'S MEETING WITH THE SPANISH PRIME MINISTER

*mc* 9/9

1. THE SECRETARY OF STATE MET WITH SR GONZALEZ AT THE MONCLOA THIS AFTERNOON FOR HALF AN HOUR. HAVING CONGRATULATED THE SPANIARDS ON THEIR EFFORTS TO BRING THE CSCE CONFERENCE TO A SUCCESSFUL CONCLUSION, THE SECRETARY OF STATE SAID THAT HE HAD A GOOD MEETING WITH MORAN YESTERDAY. HE FELT THEY HAD ESTABLISHED A GOOD WORKING RELATIONSHIP. HE HAD BEEN INTERESTED IN WHAT MORAN HAD SAID ABOUT THE KEY QUESTION REGARDING SPAIN'S ACCESSION TO THE ECONOMIC COMMUNITY. WE BELIEVED SPANISH ACCESSION WAS IMPORTANT AND WERE DOING ALL WE COULD TO HELP. HE HAD ALSO BEEN INTERESTED TO HEAR FROM MORAN ABOUT THE PROBLEMS FOR SPAIN IN MEMBERSHIP OF THE ALLIANCE. HE WOULD BE INTERESTED TO HEAR THE SPANISH PRIME MINISTER'S VIEW.

2. SR GONZALEZ PREFACED HIS REMARKS SAYING THAT HE FELT THERE WERE MANY COMMON INTERESTS BETWEEN BRITAIN AND SPAIN AND FEW PROBLEMS. ON THE EC HE BELIEVED THAT SPANISH ACCESSION WAS VERY IMPORTANT. PARTICIPATION IN NATO WAS HOWEVER A PROBLEM: IT HAD MANY DIFFERENT ASPECTS. HE HOPED IT WOULD BE POSSIBLE IN THE NEAR FUTURE TO SOLVE IT. HE WISHED TO INVOLVE THE SPANISH PEOPLE MORE IN DECISIONS ON FOREIGN POLICY. THIS WOULD LEAD THEM OUT OF THEIR ISOLATION. BUT IT HAD TO BE RECOGNISED THAT, WHEREAS THE SPANISH PEOPLE SAW MEMBERSHIP OF THE EC AS A POSITIVE BENEFIT TO SPAIN, THEY VIEWED MEMBERSHIP OF NATO DIFFERENTLY. THIS WAS AN IRRATIONAL VIEW WHICH HE DID NOT NECESSARILY SHARE HIMSELF: BUT IT HAD TO BE TAKEN INTO ACCOUNT.

3. ON GIBRALTAR, SR GONZALEZ STARTED BY ASKING THE SECRETARY OF STATE WHETHER HE THOUGHT THERE WAS LIKELY TO BE A CHANGE IN SOVEREIGNTY IN THIS GENERATION (ASKING HIS NOTE TAKERS NOT TO RECORD THE QUESTION). THE SECRETARY OF STATE AVOIDED ANY SPECIFIC ANSWER. HE COMMENTED THAT WE UNDERSTOOD WHAT THE SPANISH VIEW WAS ON SOVEREIGNTY. THEY TOO KNEW WELL OUR OWN OBLIGATIONS. THESE WERE NOT JUST WRITTEN INTO THE CONSTITUTION BUT WERE POLITICAL REALITIES. ANY CHANGES IN GIBRALTAR HAD TO BE ACCEPTABLE TO THE PEOPLE THERE. THE RIGHT APPROACH WAS TO DEAL WITH PRACTICAL MATTERS AND TO AVOID, SO FAR AS POSSIBLE, EMOTIVE TERMS SUCH AS SOVEREIGNTY. BUILDING UP ECONOMIC LINKS COULD ITSELF, IN TIME, PRODUCE CHANGED ATTITUDES. THE USE OF AIRPORTS WAS A CASE IN POINT.

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| TOURISM

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TOURISM COULD BE DEVELOPED IN THE GIBRALTAR AREAS USING BOTH GIBRALTAR AND MALAGA AIRPORTS TO THE ADVANTAGE OF ALL CONCERNED. WITH THE BUILDING OF ECONOMIC LINKS OTHER PROBLEMS WOULD BECOME LESS IMPORTANT. IN A SIMILAR FASHION SPANISH ACCESSION TO THE COMMUNITY COULD ITSELF PROVIDE A WAY OF SOLVING DIFFICULT ISSUES. FOLLOWING ACCESSION AND A TRANSITIONAL PERIOD THERE WOULD BE FREEDOM OF MOVEMENT OF LABOUR. THAT MIGHT PROVIDE THE BEST WAY OF DEALING WITH THE QUESTION OF SPANISH WORKERS IN GIBRALTAR. THE ESSENTIAL POINTS WERE TO DEAL WITH PRACTICAL ISSUES AND TO HAVE PATIENCE. THERE WERE MANY EXAMPLES IN BRITISH HISTORY OF SEEMINGLY FUNDAMENTAL PROBLEMS BEING SOLVED OVER TIME BY INITIALLY SMALL PRACTICAL STEPS.

4. SR GONZALEZ COMMENTED THAT HE HAD NEVER APPROVED OF THE RESTRICTIONS ON COMMUNICATIONS IMPOSED IN THE LATE 1960S. HE BELIEVED THAT BETTER UNDERSTANDING CAME ABOUT THROUGH GREATER COMMUNICATION. BUT, EVEN THOUGH GIBRALTAR MIGHT BE SMALL PHYSICALLY AND PERIPHERAL TO BRITISH FOREIGN POLICY CONCERNS, IT WAS A KEY AND LONG STANDING PROBLEM IN SPAIN.

5. SR GONZALEZ CONCLUDED BY ASKING THAT HIS WARMEST REGARDS SHOULD BE GIVEN TO MRS THATCHER. HE HAD BEEN DEEPLY IMPRESSED BY HER RECEPTION OF HIM WHEN STILL LEADER OF THE OPPOSITION. SHE WOULD BE WELCOME TO VISIT SPAIN AT A SUITABLE TIME (THE LAST PRIME MINISTERIAL VISIT HAD BEEN IN THE OTHER DIRECTION). HE UNDERTOOK TO DEMONSTRATE THAT, DESPITE THE GIBRALTAR PROBLEM, SPAIN WAS A FRIENDLY COUNTRY AND A GOOD PLACE TO VISIT.

PARSONS

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SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

W. 9/9

COMMERCIALISATION OF GIBRALTAR DOCKYARD

I heard that the Lord Chancellor had expressed views on the law on your minute of 15 July to the Secretary of State for Defence. At my Department's request, I have now been provided with a copy of his letter to you of 25 July which was not copied to me. In that letter the Lord Chancellor suggests that it can be argued with some force that aid to the Gibraltar dockyard is not incompatible with the Common Market, is not contrary to Article 92 and does not have to be notified to the Commission under Article 93.

I do not share the Lord Chancellor's view that there is a good argument that the Treaty provisions on state aid do not apply to Gibraltar. I cannot accept that, given the terms of the Act of Accession, it follows that because Gibraltar is outside the customs territory of the Community the competition provisions do not apply. The Lord Chancellor's advice certainly runs counter to previous studies made by officials of the extent to which the Treaty provisions apply to Gibraltar.

As I indicated in my earlier advice, a copy of which is attached to this minute, I have not been able to reach a view on the material available to me as to whether there are sound legal arguments for not notifying the Commission. My first reaction was certainly that there were not but I would need further amplification of the paper attached to your minute of 15 July to the Secretary of State for Defence if a considered view were required.

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I am copying this minute to the Prime Minister, other members of OD, Timothy Raison and Sir Robert Armstrong.

MT

LAW OFFICERS' DEPARTMENT

7 September 1983

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GRS 290

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FM MADRID 071704Z SEP 83

PS/10. DOWNING STREET.

TO IMMEDIATE FCO

TELEGRAM NUMBER 511 OF 7 SEPTEMBER

INFO GOVERNOR GIBRALTAR(PERSONAL) RABAT

YOUR TALK WITH THE KING OF SPAIN ON 7 SEPTEMBER: GIBRALTAR

1. YOU HAD A SUBSTANTIAL TALK TODAY WITH THE KING. THE APPOINTMENT HAD BEEN ARRANGED BY THE SPANISH FOREIGN MINISTER WHOSE PRIVATE SECRETARY WAS ALSO PRESENT. THIS CLEARLY LIMITED THE KING'S CUSTOMARY FREEDOM OF SPEECH. NEVERTHELESS SOME USEFUL POINTS WERE ESTABLISHED.

2. AFTER SOME DISCUSSION ABOUT THE CSCE AND THE SHOOTING DOWN OF THE KOREAN PLANE, THE TALK TURNED TO GIBRALTAR. YOU EXPRESSED APPRECIATION FOR THE KING'S PERSONAL INTEREST IN ENCOURAGING YOU TO COMBINE BILATERAL TALKS WITH THE SPANISH GOVERNMENT WITH YOUR VISIT TO MADRID FOR THE CSCE MEETING. YOU SAID THAT YOUR WORKING LUNCH WITH MORAN THE DAY BEFORE HAD BEEN CORDIAL AND USEFUL. YOU WOULD BE FOLLOWING THIS UP WITH A MEETING IN NEW YORK. IT WAS IMPORTANT TO RECOGNISE THAT THE SOVEREIGNTY ISSUE COULD ONLY BE SEEN IN VERY LONG PERSPECTIVE. MEANWHILE WE SHOULD CONCENTRATE ON BRINGING THE PEOPLE OF THE AREA TOGETHER AND DISMANTLING RESTRICTIONS. ONE USEFUL FIELD FOR MUTUAL COOPERATION MIGHT BE ECONOMIC DEVELOPMENT.

3. THE KING SAID THAT HE AGREED VERY MUCH WITH A GRADUAL APPROACH. HE ACCEPTED THAT THE OPINIONS OF THE POPULATION MUST BE RESPECTED. GIBRALTAR WAS AN EMOTIONAL ISSUE AND WE MUST BE SENSITIVE TOWARDS PUBLIC OPINION AND TO THE DEMANDS OF NATIONAL INTERESTS. BUT AT THE SAME TIME WE SHOULD TRY TO MANAGE PRACTICAL PROBLEMS, SUCH AS NAVAL VISITS, IN A MANNER CALCULATED TO AVOID DIFFICULTIES. WITH A BURST OF HIS USUAL FRANKNESS, THE KING ADDED IN ANY CASE IT WAS NOT TO THE ADVANTAGE OF SPAIN TO RECOVER GIBRALTAR IN THE NEAR FUTURE. IF SHE DID SO, KING HASSAN WOULD IMMEDIATELY REACTIVATE THE MOROCCAN CLAIM TO CEUTA AND MELILLA.

4. YOU SAID THAT THE PROSPECT OF SPANISH ACCESSION TO THE EUROPEAN COMMUNITY SHOULD BE USED TO MAKE THINGS EASIER OVER GIBRALTAR RATHER THAN THE OTHER WAY ROUND. WE SHOULD STUDY HOW THIS COULD BEST BE DONE. IN A MORE GENERAL MANNER YOU ALSO MENTIONED NATO BUT HE KING DID NOT RESPOND, PRESUMABLY KNOWING THAT ANY COMMENTS WOULD GO STRAIGHT BACK TO MORAN.

PARSONS

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PS/LADY YOUNG  
PS/MR WHITNEY  
PS/FUS  
SIR J BULLARD  
MR JAMES  
MR CARTLEDGE  
MR HANNAY  
MR WRIGHT

ADDITIONAL DISTRIBUTION  
GIBRALTAR

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10 DOWNING STREET

*From the Private Secretary*

7 September 1983

GIBRALTAR

In his minute of 1 September the Foreign and Commonwealth Secretary explained the line he proposed to take on the above subject during his visit to Madrid this week. The Prime Minister and Sir Geoffrey Howe had a brief word about this matter during their meeting on 5 September. Mrs. Thatcher has since read the minute in question and has made no comment on its contents.

A. J. COLES

Roger Bone, Esq.,  
Foreign and Commonwealth Office.

A handwritten signature in blue ink, appearing to be 'R Bone'.

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FM MADRID 062152Z SEP 83

**CONFIDENTIAL**

PS/10. DOWNING STREET.

TO IMMEDIATE FCO  
TELEGRAM NUMBER 496 OF 6 SEPTEMBER  
INFO PRIORITY GOVERNOR GIBRALTAR(PERSONAL)  
INFO ROUTINE UKREP BRUSSELS, UKDEL NATO, UKMIS NEW YORK, BONN,  
PARIS, WASHINGTON.

MIPT: SECRETARY OF STATE'S TALKS WITH SPANISH FOREIGN MINISTER:  
GIBRALTAR.

**SUMMARY**

1. BOTH THE SECRETARY OF STATE AND MORAN GAVE A FRANK EXPOSITION OF THEIR VIEWS ON GIBRALTAR. MORAN REPEATED HIS CONCERNS ABOUT EQUALITY OF RIGHTS FOR SPANIARDS IN GIBRALTAR, AND ABOUT THE AIRPORT. HE ALSO PRESSED FOR FOLLOW-UP DISCUSSIONS ON THESE POINTS AT OFFICIAL LEVEL. IT WAS FINALLY AGREED THAT BOTH MINISTERS WOULD REFLECT AND MEET AGAIN IN NEW YORK AT THE END OF THE MONTH.

**DETAIL**

2. THE SECRETARY OF STATE SAID HE SAW THIS FIRST MEETING AS AN OPPORTUNITY FOR BOTH SIDES TO EXPLAIN THEIR THINKING ON GIBRALTAR. HE DID NOT ENVISAGE IT AS AN OCCASION FOR CONCRETE DECISIONS. HE REITERATED HMG'S VIEWS ON THE NEED TO IMPLEMENT THE LISBON AGREEMENT AND OUR COMMITMENT TO RESPECT THE WISHES OF THE PEOPLE OF GIBRALTAR.

3. MORAN SAID THAT SPAIN'S ULTIMATE OBJECTIVE MUST BE THE RECOVERY IN DUE COURSE THE TERRITORY OF GIBRALTAR. THIS WOULD BE PURSUED BY PEACEFUL MEANS THROUGH NEGOTIATIONS WITH BRITAIN, TAKING ACCOUNT OF THE WELFARE AND INTERESTS OF THE INHABITANTS. HE UNDERSTOOD BRITAIN'S POSITION AND HER COMMITMENT TO THE GIBRALTARIANS. THE SPANISH GOVERNMENT WANTED GOOD RELATIONS WITH BRITAIN. ONE OF THEIR FIRST ACTS HAD BEEN THE PEDESTRIAN OPENING. THIS HAD NOT BEEN CALCULATED TO HARM GIBRALTAR ECONOMICALLY, BUT TO START DISMANTLING THE CASTIELLA POLICY OF ISOLATION. THE LISBON AGREEMENT WAS IMPERFECT, ALTHOUGH HE WAS READY TO BASE HIMSELF ON IT. BUT IT NEEDED CLARIFICATION, PARTICULARLY AS REGARDS THE RIGHTS OF SPANIARDS IN GIBRALTAR. IT WAS POLITICALLY IMPOSSIBLE FOR A SPANISH GOVERNMENT OR A SPANISH FOREIGN MINISTER TO CEDE EVERYTHING WITHOUT OBTAINING A POSITIVE BENEFIT IN RETURN.

4. THE SECRETARY OF STATE EXPLAINED THAT THERE WERE ALSO POLITICAL CONSTRAINTS IN BRITAIN AND CONSIDERABLE WORRIES IN GIBRALTAR. PERHAPS ONE WAY FORWARD WOULD BE TO DEVELOP JOINTLY WAYS OF IMPROVING ECONOMIC PROSPECTS. BUT THIS COULD NOT BE ACHIEVED UNLESS RESTRICTIONS WERE LIFTED. SOME SPANISH CONCERNS EG. RIGHTS OF SPANIARDS IN GIBRALTAR, COULD BEST BE DEALT WITH IN THE EC CONTEXT, JUST AS SPAIN WOULD HAVE TO LIFT ITS OWN RESTRICTIONS IN THAT CONTEXT.

**CONFIDENTIAL**

/5.



5. MORAN EXPRESSED SOME DOUBTS ABOUT THE EC LEGAL REQUIREMENT TO LIFT RESTRICTIONS. HE REPEATED HIS POLITICAL NEED FOR SOME KIND OF COUNTER CONCESSION. ON EQUALITY OF RIGHTS, THIS MIGHT BE A BRITISH DECLARATION OF AN INITIATIVE TO BE TAKEN BY THE GOVERNOR OF GIBRALTAR OR THE GIBRALTAR LEGISLATURE TO CHANGE LEGISLATION RESTRICTING THE RIGHTS OF SPANIARDS. ON THE AIRPORT, THE DIFFERENCE BETWEEN THE LONDON-GIBRALTAR AND THE LONDON-MALAGA TARIFF WAS SUCH THAT THERE WOULD BE A PUBLIC OUTCRY IF GIBRALTAR AIRPORT WERE OPENED FREELY TO TOURIST TRAFFIC. THERE WAS ALSO THE PROBLEM OF SOVEREIGNTY OVER THE ISTHMUS, BUT HE DID NOT WANT TO GO INTO SUCH CONTENTIOUS LEGAL ISSUES NOW.

6. THE SECRETARY OF STATE POINTED OUT THAT HIS VIEW OF THE LEGAL POSITION ON THE ISTHMUS WAS CONTRARY TO THAT OF SPAIN. HE POINTED TO THE SMALL SIZE OF GIBRALTAR AIRPORT AND THE FACT THAT FARES BETWEEN THE UK AND GIBRALTAR AND MALAGA WERE NOT DISSIMILAR. THE TWO AIRPORTS NEED NOT BE COMPETING. THEY COULD COMPLEMENT ONE ANOTHER TO GENERATE GREATER ECONOMIC ACTIVITY. AS REGARDS THE LIFTING OF RESTRICTIONS ON COMMUNICATIONS, THIS WAS NOT A PURELY BRITISH REQUIREMENT, BUT A COMMUNITY REQUIREMENT. EQUALITY OF RIGHTS FOR SPANIARDS COULD ONLY BE CONSIDERED IN THE CONTEXT OF THE TRANSITIONAL PERIOD.

7. MORAN THEN SUGGESTED THAT THESE QUESTIONS SHOULD BE LOOKED AT BY OFFICIALS IN PREPARATION FOR A FURTHER MEETING BETWEEN HIMSELF AND THE SECRETARY OF STATE AT THE UN LATER THIS MONTH. THE SECRETARY OF STATE AGREED TO A FURTHER MEETING IN NEW YORK, BUT SUGGESTED THAT IN THE MEANTIME BOTH SIDES REFLECT ON WHAT THE OTHER HAD SAID. THIS WAS AGREED. IT WAS ALSO AGREED THAT DELEGATIONS IN NEW YORK SHOULD MAKE THE APPROPRIATE ARRANGEMENTS.

8. THERE THEN FOLLOWED A BRIEF DISCUSSION ABOUT THE HANDLING OF THE UN RESOLUTION ON GIBRALTAR. MORAN SAID THAT HE WAS PREPARED TO PROCEED ON THE BASIS OF THE CONSENSUS ACHIEVED IN PREVIOUS YEARS BUT WITH DELETION OF THE REFERENCE TO THE JANUARY 1982 EXCHANGE OF LETTERS WHICH WERE UNSATISFACTORY: THOSE WHO HAD DEVISED THEM HAD BEEN ILL ADVISED. THE SECRETARY OF STATE AGREED TO CONSIDER THIS AND TO TAKE IT UP FURTHER IN NEW YORK.

9. A PRESS LINE WAS AGREED AND HAS BEEN REPORTED SEPARATELY.

PARSONS

GIBRALTAR

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ECD (E)  
PLANNING STAFF  
PS

PS/LADY YOUNG  
PS/MR WHITNEY  
PS/PUS  
SIR J BULLARD  
MR JAMES  
MR CARTLEDGE  
MR HANNAY  
MR WRIGHT

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ms.

PRIME MINISTER

GIBRALTAR

The Foreign and Commonwealth Secretary briefly described to you this afternoon the line he will take when he sees the Spanish Foreign Minister tomorrow. The attached minute describes this line in more detail.

Sir Geoffrey does not intend to make any new move. He will confirm our readiness to implement the Lisbon Agreement and try to dispel a number of Spanish illusions. There is some risk that this will produce a new setback in our relations.

If the meeting goes reasonably well, he will suggest another meeting in late September to explore the possibilities for implementing the Lisbon Agreement in more detail.

Content?

A.J.C.

5 September 1983



Prime Minister

To note

A

1/9

PM/83/63

PRIME MINISTER

Gibraltar

1. The Spanish Foreign Minister has suggested that I should meet him for a bilateral session when I visit Madrid next week to attend the CSCE concluding session. I have welcomed his invitation, and intend to meet Sr Moran on 6 September for a working lunch, followed by talks. These will inevitably focus on Gibraltar. There may also be opportunity for calls on the Spanish Prime Minister and the King.

2. My two main aims will be to establish a personal relationship with Sr Moran and to impress upon him and Sr Gonzalez that they must reduce their expectations about obtaining concessions before the start of the discussions on implementation of the Lisbon agreement. I shall try to persuade Sr Gonzalez in particular of the need to ensure that our differences over Gibraltar are managed in such a way as to avoid obstructing Spanish entry to the Community (which we have always strongly supported) and complicating the question of Spain's membership of NATO.

3. Sr Moran has shown some signs that he genuinely wishes to improve the tone of our dealings over Gibraltar. He may consider himself largely to blame for the failure to achieve greater understanding during his visit to London in mid-March. This is very welcome, as far as it goes. But while Sr Moran has told the Ambassador at Madrid that he wants to implement the Lisbon agreement and is not seeking to revise it, he is still pressing for "clarification" of the letters exchanged

/during the



*This is for Hassan.*

during the then Spanish Prime Minister's visit to London in January 1982. In particular, he wants Spaniards to be granted the same status in Gibraltar as EC nationals and may envisage maintaining restrictions in connection with our use of Gibraltar airport.

4. I do not intend to offer Sr Moran any new formulations for dealing with our differences over Gibraltar. This will be my first contact with him, and I regard it as exploratory only. I shall restate our readiness to implement the Lisbon agreement as it stands, and aim to convince him that our position is as it is not because we do not understand the Spanish position (as he has claimed to believe) but because any alternative presents genuine difficulties. In particular, on the question of EC rights, I shall attempt to make him appreciate the impossibility of dispensing, in the case of Gibraltar, with the transitional period affecting the freedom of movement of labour which will apply in all member countries when Spain joins the EC. Gibraltarian worries about competition from Spanish labour will simply not allow a situation wherey Gibraltar alone of all the Community does not get a transitional period to prepare itself for the full effects of free movement.

5. I shall also take the opportunity to point out to Sr Moran that we have noted a number of public statements by him about the trade restrictions between Gibraltar and Spain, particularly in the context of Spanish obligations after accession on imports from Gibraltar (the application of Regulation 288/82). Although Spanish assurances on Regulation 288/82 (Common Regime for Imports) are being handled between the Presidency/Commission and Spain, I think it may be well to make it clear to Moran that, both legally and politically, there is no escape from the obligations on imports which Spain will assume on accession; I should also emphasise our preference for resolving this as a legal and technical rather than as a public political problem.



6. I shall also explore the scope for dispelling Spanish anxiety over the future use of Gibraltar airport by means of technical talks, covering fare structures and the extent of the competition it may represent for the Spanish airport at Malaga.

7. There is some risk that this line, which involves no substantive movement on our part, will so disappoint the Spaniards as to bring about a new setback in our relations. But the Ambassador at Madrid will have forewarned the Spaniards not to have false expectations, and the new political situation here, following the general election, should make them consider carefully the disadvantages of reverting to a confrontational approach. Depending on how this meeting goes, I have in mind suggesting to Sr Moran that we should meet again during the UN General Assembly in late September, when it may be possible to explore the possibilities for implementing the Lisbon agreement in more detail.

8. We shall need to deal carefully with the public presentation of the meeting on 6 September. In order to avoid focussing attention on it and arousing expectations from the press and public, I propose to describe it as one of several bilateral meetings in the margins of the CSCE gathering, and not as a special meeting to discuss Gibraltar.

9. If for any reason the CSCE meeting does not take place, then my meeting with Sr Moran will fall away and can take place during the United Nations General Assembly instead.

10. I am copying this minute to colleagues in OD and to Sir Robert Armstrong.

(GEOFFREY HOWE)

cc. Private Office

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TO ROUTINE GOVERNOR GIBRALTAR

TELEGRAM NUMBER 45 OF 31 AUGUST

YOUR TELNO 114: MESSAGE FROM CHIEF MINISTER TO PRIME MINISTER

1. PLEASE PASS THE FOLLOWING REPLY FROM THE PRIME MINISTER TO THE CHIEF MINISTER ON HIS RETURN FROM HOLIDAY:

QUOTE

I WAS VERY PLEASED TO READ YOUR PERSONAL MESSAGE AND TO LEARN OF THE GENERAL ACCEPTANCE IN GIBRALTAR OF THE PACKAGE OF MEASURES RELATING TO THE DOCKYARD WHICH WE AGREED HERE AT THE END OF JULY. THE DECISION OF THE UNIONS NOT TO RESIST CLOSURE OF THE ROYAL NAVAL YARD IS PARTICULARLY HEARTENING AND BODES WELL FOR THE FUTURE. I AM SURE THAT NONE OF THIS WOULD HAVE HAPPENED WITHOUT YOUR PERSONAL INTERVENTION AND SUPPORT FOR THE PACKAGE. I AM VERY GRATEFUL. UNQUOTE.

HOWE

*Mr Thomas*



Je DA  
E. Butler

10 DOWNING STREET

*From the Private Secretary*

26 August 1983

The Prime Minister has now seen your letter of 25 August about the recent message she has received from Sir Joshua Hassan. She has agreed to the draft reply enclosed with your letter and I should be grateful if you would arrange for its despatch.

Timothy Flesher

John Holmes, Esq.,  
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

25 August 1983

Dear Tim, *Yes not* Prime Minister:  
Agree to this message  
to Sir Joshua Hassan?

Personal Message to the Prime Minister  
from the Chief Minister of Gibraltar

*JA*  
*25/8.*

In your letter of 24 August you asked for advice on a message from Sir Joshua Hassan to the Prime Minister, in which he reports the good progress so far over the commercialisation of the dockyard in Gibraltar.

Sir J Hassan has indeed used his political weight wholeheartedly in support of the commercialisation package and has convinced his fellow Ministers that what HMG had offered was the best deal available. On 27 July the Gibraltar House of Assembly approved the Government motion on the dockyard. Sir J Hassan has also commissioned a government information campaign to explain to the public the facts about RN dockyard closure. A ballot of the dockyard workforce on 5 August (the results of which were published on 12 August) showed that most workers were not willing to fight closure. We doubt whether any of this would have come about without the personal commitment of the Chief Minister.

As Sir Joshua says in his message, there are still difficulties which lie ahead. The unions (and the TGWU in particular), while accepting the inevitability of the closure of the naval yard, are still showing signs of resistance to commercialisation plans. Nevertheless Appledores, the company chosen to run the new yard, appear to be confident of good labour relations given time. This will be a key issue in the coming months.

I enclose a draft reply to Sir Joshua.

*Yours ever*

*J E Holmes*

(J E Holmes)  
Private Secretary

Tim Flesher Esq  
10 Downing Street



DSP-1 (Revised)

DRAFT: ~~minute~~/letter/~~teletype~~/~~despatch~~/~~note~~

TYPE: Draft/Final 1+

FROM:

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Sir Joshua Hassan CBE MVO QC JP

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

I was very pleased to read your personal message and to learn of the general acceptance in Gibraltar of the package of measures relating to the dockyard which we agreed here at the end of July. The decision of the unions not to resist closure of the Royal Naval yard is particularly heartening and bodes well for the future. I am sure that none of this would have happened without your personal intervention and support for the package. I am very grateful.

*Amud - ms,*

Enclosures—flag(s).....

Gibraltar  
Palmer P+4

25 AUG 1983





FCO

SH

10 DOWNING STREET

*From the Private Secretary*

24 August, 1983

The Prime Minister has received the attached message from Sir Joshua Hassan which is about the Gibraltar dockyard. I should be grateful for your advice on whether the Prime Minister needs to reply and, if so, for a draft.

I am sending a copy of this to Richard Mottram (Ministry of Defence).

TIMOTHY FLESHER

John Holmes, Esq.,  
Foreign and Commonwealth Office

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OO RBDW DFA  
DE RBDWCR 5501S 2351709

ZNY RRRRR

O 231707Z AUG 83

FM DEFENCE COMMCEN LONDON

TO FCO LOND (QUERY DUTY)

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R E S T R I C T E D UK COMMS ONLY

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HERE IS COPY OF GOVERNOR GIBS TELNO 114 AS REQUESTED

QUOTE HH

PP RBDW DFA

DE RBTJC 092 2281500

ZNY RRRRR

P 161340Z AUG ZFD

FM GIBRALTAR

TO FCO LONDON

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FROM GOVERNOR GIBRALTAR 161340Z

TO PRIORITY FCO LONDON TEL NO 114 OF 16.8 83

PERSONAL MESSAGE TO THE PRIME MINISTER FROM THE CHIEF MINISTER OF GIBRALTAR

SIR JOSHUA HASSAN HAS ASKED ME TO TRANSMIT TO YOU FOR THE PRIME MINISTER THE FOLLOWING MESSAGE:-

BEGINS: IN OUR DISCUSSIONS IN LONDON I UNDERTOOK TO THROW THE FULL WEIGHT OF THE GIBRALTAR GOVERNMENT BEHIND THE AGREEMENT WHICH WE WERE ABLE TO REACH ON THE DOCKYARD AND ASSOCIATED MATTERS. HAVING DONE THIS ON MY RETURN TO GIBRALTAR, AND IN SPITE OF STRONG LOCAL POLITICAL AND TRADE UNION OPPOSITION, I AM GLAD TO BE ABLE TO REPORT THAT WE HAVE SUCCEEDED IN OBTAINING GENERAL ACCEPTANCE OF THE PACKAGE. AN EARLIER DECISION OF THE UNIONS TO FIGHT THE CLOSURE OF THE DOCKYARD HAS BEEN REVERSED BY A SMALL MAJORITY ON A BALLOT AND THIS IS GREAT PROGRESS. HOWEVER DIFFICULTIES STILL LIE AHEAD WITH THE UNIONS BUT I WANTED TO TAKE THIS FIRST OPPORTUNITY TO LET YOU KNOW THAT WE HAVE OVERCOME THE FIRST OBSTACLE AND ALSO TO THANK YOU FOR YOUR HELP IN ENABLING US TO DO SO

KING REGARDS. ENDS

2. SIGNED TEXT BY TODAY'S BAG

NEILSON

BT

ADVANCE COPY

1010 JS (2)

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01 57641 Ext. 3020

Communications on this subject should  
be addressed to  
THE LEGAL SECRETARY  
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,  
LAW OFFICERS' DEPARTMENT,  
ROYAL COURTS OF JUSTICE,  
LONDON, W.C.2.

Our Ref: 400/83/187(1of2)

8 August 1983

Private Secretary to the  
Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
London SW1

Dr  
9/8

COMMERCIALISATION OF GIBRALTAR DOCKYARD

I have seen the letter of 25 July from the Lord Chancellor to your Secretary of State.

Unfortunately, neither Law Officer will be available until the end of this month, but I suspect that they will wish to express a view on the argument set out on pages 2 and 3 of the Lord Chancellor's letter.

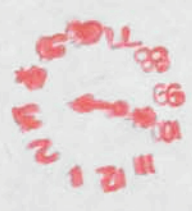
I understand that your Secretary of State himself intends to reply to the letter but is not likely to do so until next month. I also understand that Ministers are not likely to take any decisions relying on the strength of the various legal arguments until then.

I am copying this to the Private Secretaries to the Prime Minister, the Lord Chancellor, other members of OD, the Minister for Overseas Development and Sir Robert Armstrong, and also to Richards in your ECD(E), Alan Preston in the Treasury Solicitor's Department and Julian Mackenney in the Cabinet Office.

A M SUSMAN

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Gibraltar: Policy towards  
Sib Pt 4



12 AUG 1983

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CYPHER CAT A

FM GIBRALTAR 061000Z AUG 83

TO IMMEDIATE FCO TEL NO PERSONAL 113 OF 6 AUG 83

INFO IMMEDIATE MODUK FOR DS12 CFS DEFENCE LANDS

INFO IMMEDIATE ODA (FCO PSE PASS)

MY TELNO PERSONAL 111: GIBRALTAR DOCKYARD BALLOT

1. THERE HAS BEEN NO REPEAT NO OFFICIAL ANNOUNCEMENT BY GTC OF THE RESULT OF THE BALLOT WHICH TOOK PLACE YESTERDAY. PRESS REPORTS APPARENTLY WELL FOUNDED INDICATE PROBABILITY OF MAJORITY IN FAVOUR OF CONTINUING THE FIGHT.

2. GIBRALTAR CHRONICLE THIS MORNING STATES THAT OF 522 TGWU WORKERS BALLOTTED 338 FAVOUR CONTINUING THE FIGHT WHILST 170 ACCEPTED CLOSURE. THERE WERE 11 ABSTENTIONS AND 3 VOIDS.

3. IPCS BALLOTTED 93 MEMBERS AND CPSA SOME 300. NO INDICATION IS GIVEN OF THE OUTCOME OF THESE TWO BALLOTS BUT WE EXPECT CPSA TO BE STRONGLY OPPOSED TO CLOSURE.

4. THE SITUATION HOWEVER REMAINS UNCLEAR AS THE GTC WILL HAVE TO DECIDE WHAT CONSTITUTES A 'CLEAR' MAJORITY AS THEY CALLED FOR IN ANNOUNCING THE BALLOT. MOREOVER SHERIFF OF IPCS SUGGESTED TO GIBRALTAR CHRONICLE THAT A POSSIBLE NEXT STEP WOULD BE THAT IF A CLEAR MAJORITY IN FAVOUR OF ACTION WAS ACHIEVED THERE COULD BE A SECOND BALLOT AMONGST A WIDER CIRCLE OF WORKERS WHOSE SUPPORT WOULD BE NECESSARY IF UNION ACTION WAS TO BE EFFECTIVE.

5. GRATEFUL IF RESIDENT CLERK WOULD INFORM SYNNOTT SED.

GIBRALTAR

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NEWS D  
FUSD  
ECD (E)  
PLANNING STAFF  
PS

PS/LADY YOUNG  
PS/MR WHITNEY  
PS/FUS  
SIR J BULLARD  
MR JAMES  
MR CARTLEDGE  
MR HANNAY  
MR WRIGHT

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CF, see  
pps below

10 DOWNING STREET

*From the Private Secretary*

5 August 1983

I am writing on behalf of the Prime Minister to thank you for your letter of 18 July, enclosing a memorandum about the impact of Spanish accession on Gibraltar.

I believe that you had a chance to meet the team of officials who visited Gibraltar at the end of July and to put the views of your branch of the European Movement to them. The Prime Minister hopes that that meeting will have reassured you that Gibraltar's concerns about the possible impact of Spanish accession are being thoroughly considered in London.

She has also asked me to assure you that Gibraltar's relationship with the Community is safeguarded in our Treaty of Accession. This means that all Member States, including the UK, would have to approve any proposal for change. We shall of course continue to bear Gibraltar's concerns in mind, particularly as the enlargement negotiations proceed.

I can quite understand your concern that there may be problems for Gibraltar after Spain joins the Community as regards the free movement of labour. This is certainly an area that requires careful consideration both in London and in consultation with the Commission in Brussels. This is in hand following the visit by the team of officials.

(Timothy Flesher)

Mrs. C. Baldachino

VC



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Foreign and Commonwealth Office

London SW1A 2AH

4 August, 1983

*John [unclear]*  
*pse to [unclear]*  
*[unclear]*

Gibraltar and the EC

/ I attach a letter of 18 July from Mrs C Baldachino, Chairwoman of the Gibraltar branch of the European Movement, enclosing a memorandum to the Prime Minister about the implications for Gibraltar of Spanish accession to the European Community. The letter was referred to the FCO to be dealt with as we thought fit. In normal circumstances, a departmental reply would have been adequate, but we believe that there are special reasons which in this case justify a reply from a No 10 Private Secretary.

The subjects addressed in the European Movement's letter and memorandum were also the subject of a memorandum by the Gibraltar Government of 11 April 1983, setting out their concerns about Spanish accession and their wish for wide ranging but unspecified changes in Gibraltar's EC relationship to take account of it. A team of officials led by David Hannay, the FCO Assistant Under Secretary responsible for European Community affairs, was in Gibraltar from 26-28 July for talks with the Government and with various organisations in Gibraltar, including the European Movement, about these issues. The talks allowed the Gibraltarians to let off a good deal of steam, and provided an opportunity to brief them about Spain's accession negotiations and to answer a lot of questions - and also to dispel any impression that London was not interested in Gibraltar's problems in the Community.

The British team was also able to dispose of the misconception, reflected in the European Movement's memorandum, that Gibraltar's existing Community status could be altered either in the Spanish accession negotiations or after Spain joins against the UK's will. The major worry expressed on the Gibraltarian side (and also reflected in the European Movement's memorandum) was that the EC Treaty provisions for free movement of labour would result in an unacceptable inflow of cheap Spanish labour which would submerge the character of Gibraltar and create unemployment there. This led a number of those with whom the delegation spoke to talk in terms of negotiating special arrangements or permanent derogations for Gibraltar, essentially to protect those at present resident and employed in Gibraltar against competition. The delegation made clear the difficulties and disadvantages of such an approach, which

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/would

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would involve a basic change in Gibraltar's EC status, and weaken our position in seeking in Spain's accession negotiations the removal of the frontier restrictions as incompatible with EC law. But the delegation agreed to study the problem carefully and in due course to seek the views of Ministers. They pointed out that a joint declaration on the free movement of labour which would allow any Member State to raise and seek solutions for unforeseen problems in the Community institutions without limit of time, similar to that attached to the Greek Accession Treaty, was already provisionally agreed with Spain.

The European Movement is broadly representative of influential and informed opinion in Gibraltar and is used as a sounding board by the three political parties for their views and concerns on EC issues. It is therefore worth our going to some trouble to convince its members at this difficult juncture that the British Governments are listening to what they say. We have considered whether we should recommend that the Prime Minister reply personally, but have concluded that - given that the letter is almost certain to be published - this might easily be seen by the Spaniards as a provocative gesture. On the other hand a departmental reply would be seen as a brush-off. I enclose a draft.

*Yours ever*

(R B Bone)  
Private Secretary

A J Coles Esq  
10 Downing Street

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DRAFT LETTER

FROM: PS/10 DOWNING STREET

TO: MRS C BALDACHINO

CHAIRWOMAN THE GIBRALTAR BRANCH OF THE EUROPEAN  
MOVEMENT

The Prime Minister has asked me to thank you for your letter of 18 July, enclosing a memorandum about the impact of Spanish accession on Gibraltar.

I believe that you had a chance to meet the team of officials who visited Gibraltar at the end of July and to put the views of your branch of the European Movement to them. The Prime Minister hopes that that meeting will have reassured you that Gibraltar's concerns about the possible impact of Spanish accession are being thoroughly considered in London.

She has also asked me to assure you that Gibraltar's relationship with the Community is safeguarded in our Treaty of Accession. This means that all Member States, including the UK, would have to approve any proposal for change. We shall of course continue to bear Gibraltar's concerns in mind, particularly as the enlargement negotiations proceed.

I can quite understand your concern that there may

be problems for Gibraltar after Spain joins the Community as regards the free movement of labour. This is certainly an area that requires careful consideration both in London and in consultation with the Commission in Brussels. This is in hand following the visit by the team of officials.

TF

Q1 Gibraltar

TF 6222

GIBRALTAR BRANCH  
1A, Paradise Ramp,  
Gibraltar.

Tel: No. 77530.

**The European  
Movement  
(British Council)**

Limited by Guarantee  
Registered in England  
No 551817

Registered Office  
Europe House  
1A Whitehall Place  
London SW1A 2HA  
Tel 01-839 6622  
Telex  
916809 EURLDN

18th July, 1983.

R19/7 by hand

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,  
10, Downing Street,  
London,  
England.

NAFLO

*Competition to the TEF*

Dear Madam,

I have to inform you that a motion was passed at the Annual General Assembly of the Gibraltar Branch of the British European Movement held on the 4th May, 1983, which reads as follows:

" This Assembly calls on the Executive Committee to make urgent representations to the Prime Minister, The Hon. Mrs. Margaret Thatcher, seeking an assurance that prior to the accession of Spain to the European Economic Community, negotiations will take place to alter the present terms of membership of Gibraltar to ensure that Gibraltar's economy is adequately protected and that such representations will be made within the next three months. "

In consequence thereof, I have been requested to deliver the attached memorandum to you in London with the request that this receives your favourable consideration.

The Branch wishes to express their sincere appreciation and gratitude for your continued support in defence of the rights of the people of Gibraltar to determine their own future.

Yours faithfully,

*Cecilia Baldachino*

C. Baldachino,  
Chairwoman.

*We spoke - The Secretary 25/7  
- Mr Codrington M  
delivered to me by the B  
personally. I think we should*

Patrons of Honour of  
European Movement  
Dr Walter Hallstein  
Rt Hon Harold Macmillan  
Jean Rey

President  
The Rt Hon Lord Duncan-Sandys CH  
The Rt Hon Sir Geoffrey de Freitas KCMG MP  
The Rt Hon Lord George-Brown  
Lord Gladwyn GCMG GCVO CB  
The Rt Hon Lord Harlech KCMG  
The Rt Hon Edward Heath MBE MP  
The Rt Hon Lord Home KT  
The Rt Hon Lord Houghton CH  
The Rt Hon Roy Jenkins  
The Rt Hon Dr Dickson Mabon MP  
Sir John Sainsbury  
The Rt Hon Lord Thomson

Chairman  
Mr Basil de Ferranti DSc MEP

Deputy Chairman

The Rt Hon Dr Dickson Mabon MP

Vice-Chairmen  
Lord Banks CBE  
Mr John Pinder ORE

Hon Treasurers

Mr Geoffrey Drain  
The Rt Hon Maurice V Macmillan MP

Hon Secretaries

Miss Beryl Goldsmith  
Mr Norman Hart

Director

Mr Ernest Wistrich CBE

Patrons  
Rt Hon James Callaghan MP  
Rt Hon David Steel MP  
Rt Hon Margaret Thatcher MP

*consider with [unclear]*

MEMORANDUM

---

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,  
10, Downing Street,  
London,  
England.

Dear Madam,

In view of the fact that the people of Gibraltar are disenfranchised with regard to the European Economic Community Parliament, we feel this matter is so very important that we ought to appeal to you.

Spain has applied to become a member of the Community and Britain has stated on several occasions that she will support Spanish entry. The Gibraltar Branch of the British European Movement would like to draw your attention to the serious consequences for the economy of Gibraltar, and indeed the very survival of our community, implicit in having to meet present treaty obligations with direct communications with Spain and the latter's eventual membership of the Community. However, there are other facets of Spain's joining the E.E.C. which can affect Gibraltar most intimately and this memorandum is addressed to you with the request that these matters be taken into consideration and a solution to them be found.

It is the considered view of this branch and of all sectors of opinion in Gibraltar that the continuing terms of membership of Gibraltar in the Community need to be settled prior to Spain's entry and since this could prove a delicate matter, it requires a decision at the highest level. The matter was first raised in the Gibraltar House Of Assembly in 1980 and ways of achieving this objective have been under consideration by a Committee of the House Of Assembly since then. Representations to this Committee have been made by the Gibraltar Chamber Of Commerce, the Gibraltar Trades Council and other representative bodies.

Contd / . . . .

The present situation is that since 1973, there has been free movement of labour and capital between Gibraltar and the E.E.C. countries but this has represented no serious threat to employment or businesses. With the possible accession of Spain to the E.E.C., the measures necessary to protect Gibraltar and its 30,000 people would have to be looked at in depth and enacted if the survival of its small community is to continue, given the size of the neighbour and its population of approximately forty million.

Gibraltar, at the present time, is a political member of the Community (as the only British dependent territory in Europe) but the economic elements of E.E.C. membership do not apply to Gibraltar and therefore Gibraltar does not derive any economic benefit from the Community. Gibraltar does not pay the Common Agricultural Policy levy, is not enjoined in the Common Customs Tariff policy and does not levy Value Added Tax. Once Spain joins the E.E.C., there may be pressures that these three elements should apply to Gibraltar. Gibraltar would, however, request that these should not be applied. The C.A.P. would mean an increase in the cost of living with no benefit to Gibraltar since there is no agriculture on the Rock. V.A.T. would also mean that a considerable amount of money, which today finds its way into the Gibraltar exchequer through moderate customs duties on importation, would no longer remain in Gibraltar but would be required to be sent to Brussels. This would create serious difficulties to the Gibraltar economy and undermine the political aspirations to the right to self-determination of our people.

It is hoped that there will be no change in Gibraltar's present position as regards to C.A.P., V.A.T. and Common Customs Policy Tariffs.

There is, however, a further point on which derogation should be sought. Neighbouring Spain is a strongly depressed area with a high measure of unemployment - this has been the pattern of life in Andalucia over the last fifty years and it would be extremely difficult for Gibraltar if all the unemployed persons in Andalucia were to try to seek employment in Gibraltar under the E.E.C. agreement that movement of labour should be freely permitted.

We hope that all these points will be taken into early consideration and that application will be made to Brussels to obtain such safeguards as may be necessary of the various matters mentioned above on Gibraltar's behalf as soon as possible. We feel certain that the Gibraltar Government, fully supported by all political parties having electoral representations in the House Of Assembly, will be willing to enact any measures necessary which are vital to the continued well-being of Gibraltar.

We would, therefore, specifically request that H. M. Government should approach its Common Market partners to bring to their attention the need to protect Gibraltar's interests prior to Spain's entry into the E.E.C. in much the same way as other specific national interests are being protected in other member states.

Yours faithfully,  
British European Movement  
(GIBRALTAR BRANCH)

*Cecilia Baldachino*

C. Baldachino (Mrs.)  
Chairwoman





DEPARTMENT OF TRADE AND INDUSTRY

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB

Telex 8813148

Telegrams Advantage London SW1

Telephone Direct Line 01-212 3301

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JU205  
Secretary of State for Trade & Industry

3 August 1983

CONFIDENTIAL

The Rt Hon Michael Heseltine MP  
Secretary of State for Defence  
Ministry of Defence  
Main Building  
Whitehall SW1

*DX*  
*3/8-*

*Dear Michael,*

COMMERCIALISATION OF THE GIBRALTAR DOCKYARD AND THE COMMUNITY

I support the view expressed in Geoffrey Howe's minute to you of 15 July 1983, that we should not notify the grant in aid. We shall shortly undertake a very difficult negotiation with the Commission over shipbuilding support generally. This could well be complicated by notification of a grant to create a commercial yard which will be competing with other member states' repair yards in the Mediterranean.

I am copying this letter to other members of OD, to Timothy Raison and to Sir Robert Armstrong.

*Yours Ever,*  
*Neil*

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10 DOWNING STREET

*From the Private Secretary*

1 August 1983

Thank you for your letter of 27 July about the position over Gibraltar in the accession negotiations with Spain.

The Prime Minister has noted the information in your letter and has asked to have a word with the Foreign Secretary and Mr. Hannay some time in September. I shall be in touch to arrange this.

(TIM FLESHER)

J E Holmes Esq  
Foreign and Commonwealth Office

SH

29 JUL 1985



GIBRALTAR: Policy: P64

CONFIDENTIAL

2

DEPARTMENT OF TRADE AND INDUSTRY



Room 1103 Ashdown House 123 Victoria Street SW1E 6RB  
Telex 8813148  
Telegrams Advantage London SW1  
Telephone Direct Line 01-212 5902  
Switchboard 01-212 7676

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

CONFIDENTIAL

Gibraltar  
Policy, P44



28 JUL 1983

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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.

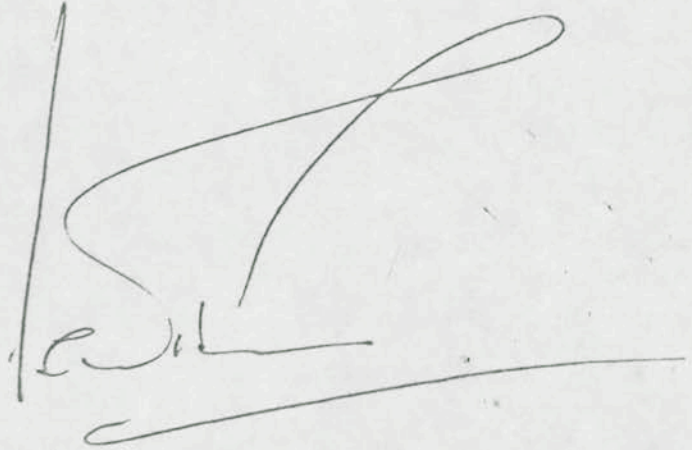
1. You may wish to tell Mr Coles that the team Sir J Hassan wishes to bring with him to the meeting with the Prime Minister today is the same as last time ie, himself, Mr A J Canepa (Minister for Economic Development and Trade) and Mr Joe Pitaluga (Administrative Assistant, ie senior Gibraltarian Civil 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.

/(iii)

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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



Top copy Local Govt - Relations Pt  
cc Gibraltar (see page  
2)

There were four statements today.

1. The Scottish Rates Support Grant

This was a fairly routine occasion giving Opposition members a chance to complain generally about interference with local government. There was comparatively little support from Government benches but Mr. Younger had no difficulty.

2. Stock Exchange

Mr. Parkinson's statement predictably aroused the wrath of the Opposition who accused the Government of exempting their friends in the City from the requirements of the law. There was, however, a general welcome from the Government side for the statement and considerably detailed questioning about the agreement reached with the Stock Exchange. Opposition members were not interested at all in the contents of Mr. Parkinson's statement and he was able to make effective use of the point that the Opposition had given the trade unions very considerable immunities while requiring nothing from them in exchange. He also stressed the desirability of settling matters out of court at a great saving to the taxpayer. Generally speaking the Opposition were not able to make their charges stick.

3. Public Expenditure

Mr. Rees had a considerable success with his statement both in its content and style. The approach of the Opposition clearly demonstrated there would have been disproportionate trouble had the statement not been oral. But Mr. Rees' low-key approach was, I suspect, far more successful in diffusing the situation than would have been the Chancellor. The Opposition questioning concentrated on job losses, in particular in the National Health Service which suggests that you may have the figure of 8,000 job cuts quoted to you tomorrow.

/4. Gibraltar



Prime Minister.

Some aspects of the  
letter are not very clear.

Foreign and Commonwealth Office

London SW1A 2AH

You may like me to arrange  
for you to have a word with  
the Foreign Secretary and Mr.  
Hawkey some time after the  
holidays.

27 July 1983

See John, -

A-J-C  $\frac{28}{7}$

EC/Spain: Gibraltar

You asked for some background on where we stand over Gibraltar in the accession negotiations with Spain. I apologise in advance for its length - the subject is not straightforward.

Many Spanish restrictions on Gibraltar will be illegal under Community law if still in place when Spain accedes to the Community. (Some, eg prohibited air space, Algeciras ferry - do not fall within the scope of Community law and are not directly affected by it. They are not therefore further discussed here.) There is no warrant in Community law, and we should not therefore get support from our partners in the accession context, for demanding that they be lifted before accession. But we should be able to use the weight of the Community in insisting that all measures incompatible with Community law on accession must be lifted by then. In practice, because Spanish promises cannot be trusted, we must build into the accession process a tripwire such that if the border is not open as the date of accession approaches, we shall still be in a position to prevent accession by (for example) not depositing our instrument of ratification.

What we are trying to achieve

Against this background we aim in the accession negotiations, with the support of our partners, to secure acknowledgement by Spain that the Spanish restrictions on Gibraltar are incompatible with the obligations Spain will assume on entry to the Community, and will have to be removed by the time Spain accedes. Our approach has two stages. The first stage is to identify in the individual chapters of the negotiations the points at which Spanish restrictions in relation to Gibraltar conflict with Community law, and through the Community to make it clear to the Spaniards that until we have a satisfactory and explicit assurance that they recognise that this is so, and that the offending measures will be removed by the time of their accession, these chapters cannot be closed. This approach should enable us to build up, piece by piece, a solid position with the weight of the Community behind us based firmly on the requirements of Community law.

/There are



There are three main areas where Spanish measures potentially conflict with Community law - free movement of goods (covered in the External Relations chapter), free movement of persons and labour (covered in the Social Affairs chapter) and rights of establishment.

Where free movement of goods is concerned, Gibraltar - though a part of the Community - is not part of the customs territory of the Community to which the Customs Union applies. In addition it is not subject to the Common Commercial Policy and is excluded from the CAP and VAT.

Imports from Gibraltar to the Community are accordingly subject to the common regime for Community imports from outside the Community customs territory. Specifically, after accession Spain will be obliged to apply EC Regulation 288/82 on the Common Regime for Imports which requires that imports into the Community shall be free of restrictions, except for permitted tariffs and certain residual Quantitative Restrictions (QRs) authorised by the Regulation in its Annexes.

Spain will be entitled in principle to apply some QRs against Gibraltar after accession by agreement. But it is one thing to specify a list of QRs to be retained on non-liberalised products by agreement and another to impose a total block on the movement of goods across the frontier. Spain would still have to accept that Regulation 288/82 obliged her to lift her blanket embargo before seeking agreement to maintain specific QRs. In any case we believe (though DTI legal experts are still checking this) that under Community origin rules, Spain could only impose QRs against goods of Gibraltarian origin - of which there are none.

On free movement of labour, the Community will insist on a transitional period of at least 7 years before applying the provisions on the free movement of workers to seek employment. But the rest of the range of Community rules on free movement are expected to apply to Spain on her accession.

As regards rights of establishment, certain derogations were agreed between the Community and Spain when the chapter was concluded. Since the Lisbon Agreement then looked close to implementation (April 1982) and we did not wish to rock that boat, we did not ask the Community to seek specific Spanish assurances in this chapter. The Community did nonetheless state clearly that Spanish measures in force could create difficulties if maintained.

/The German



The German Presidency, with support from the Commission and Council Secretariat, and the tacit acquiescence of the other Member States, have at our instigation sought from the Spaniards in the negotiation of the External Relations chapter an undertaking on the removal of those measures which conflict with Spain's EC obligations. The Spaniards have shown willingness to discuss the language of an assurance on the free movement of goods, but have not yet come up with a satisfactory wording despite various formulations which the Presidency, in consultation with us, has offered. Moran's statement to the Senate Foreign Affairs Committee, which is the subject of Madrid telno 410, is ambiguous, but we are inclined to a more pessimistic interpretation than that in the telegram. Moran appears to be saying that whereas Spain will apply Regulation 288, she does not accept the Community's view that this would oblige her to lift the restrictions on the movement of goods at the frontier. This approach coincides with the evasive wording in the first Spanish reply to the Community on this point, which the Presidency made clear to them was unacceptable. We have now briefed the Greek Presidency both at official and Ministerial level on the background to make sure that they are ready to carry on where the German Presidency left off.

We will also be seeking similar action by the Greek Presidency in the context of the Social Affairs Chapter, due to be negotiated shortly, both as regards the free movement of persons and the free movement of workers. We are already in touch with the Commission about this, and have made it clear to them that Moran's statement makes it more important than ever for us to have absolutely watertight assurances from the Spaniards.

Without satisfactory Spanish assurances, we can - and intend to - prevent the conclusion of the External Relations and Social Affairs Chapters (Rights of Establishment was closed in mid-1982). We shall however need a more general, and public, Spanish assurance before we proceed to signature of the Accession Treaty. As a condition of signature, therefore, we intend to seek a public Spanish commitment (in a form which can be decided nearer the time) that they will open the frontier by a certain date (3 - 6 months) before actual accession. The purpose of this, the second stage of our approach, is to make sure that the Spanish assurances are bankable. If the border were not open by that date, we would refuse to ratify the Treaty (whether by not submitting it to Parliament for the necessary implementing legislation, or submitting it on the basis that the instruments of ratification would only be deposited once the frontier was open). We should thus keep entirely in our own hands

/whether or



hands whether or not Spain actually acceded, avoiding the danger of committing ourselves irrevocably to accession upon the strength only of Spanish promises about the restrictions. Precisely what course to adopt would depend on the circumstances at the time; we are pursuing this further with our legal advisers.

#### Attitude of our EC Partners

Our partners avoid taking sides over Gibraltar. They find colonial disputes embarrassing, and attach great importance to anchoring Spain firmly to Western Europe through the Community and NATO. They have gone along with us so far, partly because (to the extent that they have understood what we are up to) they have had to accept that our position is soundly based on the requirements of Community law (the support of the Commission and German Presidency has been invaluable in this respect), and partly because they have not yet been asked to do anything very active to help us. We have been careful to keep the whole exercise in low key, using legal and technical arguments, and have been successful in avoiding undue publicity. We have thus succeeded in incorporating an insistence on the removal of the frontier restrictions relevant to Community obligations into the Community's negotiating position almost by stealth; and the longer Member States go on giving it their tacit acquiescence, the more difficult it will be for them to defect if and when the going gets rough. And the going may easily get really quite rough, for example if the Spaniards harden the link they are making between British movement on Gibraltar and Spanish membership of NATO (in which they see NATO as the demandeur).

*Yours*

*R B Bone*

(R B Bone)  
Private Secretary

A J Coles Esq  
10 Downing Street

From: Mr I R Lee

TF  
WR  
BI  
②



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1A 2HB  
Telephone 01-218 6666 (Direct Dialling)  
01-218 9000 (Switchboard)

PARLIAMENTARY UNDER-SECRETARY OF STATE  
FOR DEFENCE PROCUREMENT

Prime Minister

A.J.C. 26/7

DP/IS 8/9/1

26 July 1983

Dear Coler,

I attach the final version of the statement on Gibraltar that Mr Stewart will be making in the House of Commons tomorrow. Lord Trefgarne will make the parallel announcement in the Lords.

I am copying this to the Private Secretaries of the members of OD, the Leader of the House and Sir Robert Armstrong; also to the offices of Lady Young, Timothy Raison and, within the Ministry of Defence, John Stanley and Lord Trefgarne.

Yours sincerely,

(Private Secretary)

A J Coles  
Private Secretary to Prime Minister  
No 10 Downing Street



STATEMENT TO PARLIAMENT ON THE GIBRALTAR DOCKYARD

1. Following close consultation and detailed discussions between HMG and the Govt of Gibraltar on the arrangements for the closure of the Royal Naval Dockyard at Gibraltar, the establishment of a commercial ship repair yard to take its place, and certain related matters, the Govt of Gibraltar have agreed to recommend to the Gibraltar House of Assembly, and to support fully, the terms which have been agreed between us. The Chief Minister of Gibraltar is proposing a motion to this effect in the House of Assembly this afternoon.

2. The Royal Naval Dockyard will now close by 31st December 1984, a year later than originally envisaged. To this end a state of redundancy will be declared in respect of the rundown of the Royal Naval Dockyard on 1 September 1983. Individual redundancy notices will be issued thereafter as appropriate. Full redundancy payments will be made. It has been agreed with the Gibraltar Government that, following closure of the Royal Naval dockyard, the yard will re-open immediately as the Gibraltar Ship Repair Company which will be a commercially managed enterprise with A&P Appledore International Ltd acting as managers on behalf of the Gibraltar Government.

3. Associated with the closure of the Naval dockyard and the establishment of a commercial yard, HMG have agreed on



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a number of measures of support to the Gibraltar economy. The land and assets for the commercial ship repair yard will be handed over free of charge to the Gibraltar Government. A total of up to £28 million will be provided to meet the initial cost of conversion, working capital, and operating losses, if any, in the first two years of commercial operation of the new yard. These funds will only be committed after satisfactory assurances have been obtained by the commercial operator from the workforce on new working practices. Subject to those assurances funds could be disbursed before closure of the naval dockyard. The flow of funds thereafter will depend on the maintenance of these working practices.

During the first three years of operation of the commercial yard, work will be provided by the Ministry of Defence on Royal Fleet Auxiliary vessels to the value of £14 million at current prices. Work will also be available on other Ministry of Defence vessels to the approximate value of £0.5 million to £1 million per year. In addition the Ministry of Defence are leasing accommodation to the Gibraltar Ship Repair Company for use by management staff so as not to throw an additional burden onto Gibraltar's scarce stock of housing.

4. Agreement has been reached on new arrangements for the transfer of surplus defence land to the Gibraltar Government. The Ministry of Defence has also undertaken to release to the Gibraltar Government a number of sites which will

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facilitate the development of tourist and commercial facilities on the Rock. Release will take place when present facilities on these sites have been reprovided elsewhere and when the Gibraltar Government is ready to proceed with development. In addition, MOD has agreed to review its long term property requirements to see what other sites might in future be available for transfer to the Gibraltar Government.

5. If there are any future difficulties for the Gibraltar economy, HMG would be prepared, in line with the policy of supporting Gibraltar during the present border 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.

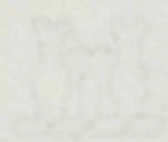
6. The closure of the Royal Naval dockyard at Gibraltar inevitably poses great problems of re-adjustment for those who work there and for the economy as a whole. Nevertheless, given the substantial measures of support which I have announced, both for the dockyard and for the broader development of the economy, I am confident that the establishment of a commercial yard, will provide a real opportunity for Gibraltar and its people to create a viable and effective alternative.



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Dr. 27/7

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a number of measures of support to the Gibraltar economy. The land and assets for the commercial ship repair yard will be handed over free of charge to the Gibraltar Government. A total of up to £28 million will be provided to meet the initial cost of conversion, working capital, and operating losses, if any, in the first two years of commercial operation of the new yard. These funds will only be committed after satisfactory assurances have been obtained by the commercial operator from the workforce on new working practices. Subject to those assurances funds could be disbursed before closure of the naval dockyard. The flow of funds thereafter will depend on the maintenance of these working practices.

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4. Agreement has been reached on new arrangements for the transfer of surplus defence land to the Gibraltar Government. The Ministry of Defence has also undertaken to release to the Gibraltar Government a number of sites which will

facilitate the development of tourist and commercial facilities on the Rock. Release will take place when present facilities on these sites have been reprovided elsewhere and when the Gibraltar Government is ready to proceed with development. In addition, MOD has agreed to review its long term property requirements to see what other sites might in future be available for transfer to the Gibraltar Government.

5. If there are any future difficulties for the Gibraltar economy, HMG would be prepared, in line with the policy of supporting Gibraltar during the present border 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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10 DOWNING STREET

From the Private Secretary

26 July, 1983

Dear Roger,

Gibraltar

I enclose a record of the conversation between the Prime Minister and the Chief Minister of Gibraltar at No. 10 this evening.

I am copying this letter and enclosure to Richard Mottram (Ministry of Defence).

Yours ever

John Gles

R. B. Bone, Esq.,  
Foreign and Commonwealth Office

CONFIDENTIAL

da



MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone: 01-218 6666 (Direct Dialing)

01-218 9000 (Switchboard)

PARLIAMENTARY UNDER-SECRETARY OF STATE  
FOR DEFENCE PROCUREMENT

DP/IS 8/9/1

26 July 1983

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Yours sincerely,

(Private Secretary)

A J Coles  
Private Secretary to Prime Minister  
No 10 Downing Street



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SUBJECT

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cc master

RECORD OF CONVERSATION BETWEEN THE PRIME MINISTER AND THE CHIEF  
MINISTER OF GIBRALTAR AT 1645 HOURS AT 10 DOWNING STREET ON  
TUESDAY, 26 JULY, 1983

Present:

Prime Minister	Sir Joshua Hassan
Mr. Ian Stewart, M.P.	Mr. A. J. Canepa
Mr. Coles	Mr. J. Pitaluga

\*\*\*\*\*

Sir Joshua Hassan said that he was glad that we had been able to reach an agreement about the future of the Gibraltar dockyard. He was grateful to the Prime Minister for the personal interest she had shown. He particularly appreciated the postponement by one year of the closure of the naval dockyard and our willingness to transfer certain MOD sites. He would now put his full weight and that of his colleagues behind the agreement. He would present the agreement in the most favourable light and hope that public opinion in general, and the trade unions in particular, would support it. There was, however, a considerable task of persuasion ahead.

He wished to raise one problem, simply so that he could say that he had mentioned it. The original ODA proposal had been that it would guarantee the first two years of losses from the dockyards. Now there was an understanding, enshrined in the agreement, that consideration would be given in the future to helping the Gibraltar economy.

Mr. Stewart said that two separate points were involved. The ODA had undertaken to compensate trading losses for two years. Then a general formula had been agreed for possible future help for the economy. With regard to the first point it was worth noting that we were now offering an increased workload for the dockyard which would be spread over three years.

/We

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We should be as helpful as we could over the distribution of the work so that if the Gibraltar Government wished a certain amount to be bunched in the third year, this could be done.

Sir Joshua Hassan said that he had wished only to mention this matter, not to make an issue of it. With regard to MOD lands, very considerable progress had been made. The MOD had held on to some of these properties for too long. A breakthrough had now been made and he hoped there would be no undue delay in transferring the properties.

He was prepared to stake his whole political career on the agreement.

Mr. Canepa commented that he had stated earlier that Gibraltar's objective should be to move from an artificial to a more natural economy. This inevitably meant that Gibraltar would be more subject to the play of market forces but that was a more adult situation for the colony.

Sir Joshua Hassan said that the agreement disposed of our problem, provided only that the Gibraltar Parliament approved it. The Prime Minister commented that she believed that the agreement measured up to the problem and the challenges ahead.

Sir Joshua Hassan thanked the Prime Minister for her firm attitude on the link between Spanish entry into the European Community and the border restrictions. The partial opening of the border had done serious damage to the Gibraltar economy. He was most grateful for the help that was now being given by a team of our EC experts. Mr. Hannay had told him that while Spanish officials had well understood the link between entry into the Community and the Gibraltar problem, Spanish Ministers were only now beginning to realise that it was not just Britain but EC Member States more widely who required restrictions to be lifted.

At the end of the discussion, Sir Joshua Hassan

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/presented

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presented the Prime Minister with a small silver model of the Rock.

The discussion ended at 1715.

A. J. C.

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*due VC*

10 DOWNING STREET

*From the Private Secretary*

26 July 1983

Gibraltar Dockyard

The Prime Minister has seen your Secretary of State's minute of 25 July.

She is content that, once the Chief Minister of Gibraltar has ratified the final document, Mr. Ian Stewart should make an oral statement in Parliament. She would simply wish to be sure that the Chief Minister would not himself react unfavourably to the fact that the statement was not made by a Cabinet Minister. Perhaps, therefore, you would satisfy yourself on that point.

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

A. J. COLES

Richard Mottram Esq  
Ministry of Defence

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05 7641 Ext. 3229

Communications on this subject should  
be addressed to

THE LEGAL SECRETARY  
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,  
LAW OFFICERS' DEPARTMENT,  
ROYAL COURTS OF JUSTICE,  
LONDON, W.C.2.

Our Ref: 400/83/187

26 July 1983

F Richards Esq  
ECD(E)  
Foreign and Commonwealth Office  
King Charles Street  
LONDON S W 1

*F Richards,*

COMMERCIALISATION OF THE GIBRALTAR DOCKYARD AND THE  
EUROPEAN COMMUNITY

Thank you for sending me a copy of the Foreign Secretary's minute of 15 July to the Secretary of State for Defence concerning the commercialisation of the Gibraltar Dockyard. I have shown the minute to the Attorney General.

The Attorney General is most concerned about the suggestion in paragraph 5 of the minute and in paragraph 12(a) of the paper by officials that we should decide now to defy an eventual judgment of the European Court. He questions whether the broader implications of defying a judgment of the European Court have been taken fully into account and whether it is really necessary to take such a decision at this stage. He acknowledges that, in the context of withholding our budgetary contributions, we have contemplated the possibility of defying the judgment of the European Court. But that is a very exceptional case indeed and the Attorney hopes that before a final decision is taken to defy the Court's judgment in this case, full account will be taken of the drastic nature of such a course of action, of the effect it will have on the UK's credibility before that Court and other international tribunals and of our interest in ensuring that other Member States comply with their Community obligations and with judgments of the European Court and in particular do not grant illegal state aids. As to the need to take a decision on this question at this juncture, the Attorney points out that much will depend on the turn of events, the timing of the grant of aid and the precise terms of the judgment. It is, of course, possible that, after the European Court has given its Judgment, an individual will bring a case before the Courts in Gibraltar to "enforce" that judgment, seeking a declaration that the aid is unlawful. The Attorney considers it totally unacceptable that HMG or

/the

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005 7641 Ext.

Communications on this subject should  
be addressed to

THE LEGAL SECRETARY  
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,  
LAW OFFICERS' DEPARTMENT,  
ROYAL COURTS OF JUSTICE,  
LONDON, W.C.2.

the Government of Gibraltar should, besides flouting the judgment of the European Court, defy the judgment of a domestic court.

The Attorney accepts that the question of whether to notify the aid or not is primarily one of policy. He has not received sufficient information about the aid to form a judgment as to whether it falls within Article 92(1), i.e. whether any of the defences set out in paragraph 15 of the paper by officials are likely to succeed. That paper, however, fails to identify certain additional risks which are run in not notifying the aid (assuming that it is indeed notifiable). The European Court has held that the last sentence of Article 93(3) (requiring Member States not to put a measure into effect until the Commission has expressly or implicitly approved it) has direct effect. This means that the aid is unlawful in domestic law if it is not notified. That has two consequences. First, the aid could conceivably be challenged at any time in the courts of Gibraltar (although probably not in the UK courts) by a competitor. Secondly, it may be of concern to the PAC that money is being expended on a project for which there is no lawful authority. There could well be questions in Parliament as to why we have assisted in the unlawful payment of aid by the Government of Gibraltar. The Attorney is not in a position, however, to assess the extent of those additional risks nor of the risk of the Commission seeking interim measures under Article 186 EEC.

I am copying this letter to Bill Godwin and Sophia Lambert.

*Yours sincerely,  
Henry Kent  
for*

M L SAUNDERS

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Lib Policy Pt 4

8 SEP 1987

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TORONTO

BI ①



Prime Minister

MO 5/16

*I am happy that Ian should make the statement but - What would Hassan's reaction be?*

*Agree that Mr. Stewart should make the statement?*

*A.S.C. 25.7*

PRIME MINISTER

GIBRALTAR DOCKYARD

*with ASC?*

I have seen Ian Stewart's report of his recent visit to Gibraltar and I regard the Understanding he has reached with Sir Joshua Hassan as a very satisfactory outcome to the negotiations.

2. Once Sir Joshua ratifies the final document next week I believe it would be appropriate to announce the agreement to Parliament in an Oral Statement. You may feel, as I do, that Ian should make the Statement since he has carried the day to day responsibility for the negotiations and of course, now agreement has been reached, the Statement should not be unduly controversial.

3. Naturally, if you felt that it would be constitutionally more correct for me to make the Statement I would do so, although I consider that credit should still be given to the man who achieved the settlement.

4. I am copying this to the Foreign and Commonwealth Secretary.

*W.A.H.*

Ministry of Defence

25th July 1983

G. G. Walter : Policy M 4



25 JUL 1988



CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

25 July 1983

Prime Minute.

DL 25  
7

John Stan,

mt

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.

/I am

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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

CONFIDENTIAL

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

/the

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

/area

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.

HOUSE OF LORDS,  
SW1A 0PW

*With the  
Lord Chancellor's Compliments*



HOUSE OF LORDS,  
SW1A 0PW

25 July 1983

*Handwritten signature*

*Amil FCS's reg.*

*ML 26/7*

The Right Honourable  
Sir Geoffrey Howe, Q.C., M.P.  
Secretary of State for Foreign  
and Commonwealth Affairs  
Foreign and Commonwealth Office  
London S.W.1

*My Dear Geoffrey:*

Commercialisation of the Gibraltar Dockyard

I have read with interest your minute to Michael Heseltine of 15th July on the policy we should adopt towards notifying to the European Commission the aid we propose to grant to Gibraltar. State aids are not an aspect of Community law with which I am particularly familiar, but there are nevertheless one or two points in your minute which trouble me.

The first, which may be due to a misunderstanding, is the statement at the end of paragraph 5 of your minute that if proceedings were taken against us in the European Court it would be necessary for the investment to go ahead in defiance of the Commission and/or the Court. I can well understand that, if the Commission took proceedings against us on the grounds that in their view this aid was illegal, you would nevertheless wish to proceed with this aid unless and until there was an adverse ruling from the European Court. But what you say could be understood as meaning that you would proceed with this aid even in defiance of an adverse ruling of the Court. I presume that this is not your intention, but if it is I fear that I would see some difficulty in going along with this. The framework of any civilised society is based on obedience to the orders of the Courts; and this is all the more true in the

/case

case of the Community, where the Court has no means of enforcing its judgments against the Member States, and must therefore rely on the Member States themselves complying with their Treaty obligations and obeying the orders of the Court.

I turn now to the question of notification. You say that there is "just a chance" that the Commission might not notice the aid, or might choose to turn a blind eye. Although as I have said my experience in this field is limited, I find it hard to believe that there is much real prospect of this happening. Your officials have already discussed the point with those of the Commission; the aid could surely not fail to attract considerable publicity; and other countries with an interest, such as France and Italy, are likely to draw the aid to the Commission's attention. If I am right in this, our failure to notify would surely be more likely to lead the Commission to take an adverse view of this aid than if they had been informed of it in advance.

I am not for a moment suggesting that the aid should be officially notified to them under Article 93 of the EEC Treaty, for I recognise the difficulties inherent in this, the first of which is that it would constitute an implied admission that we are bound by the Treaty to notify to the Commission aid granted to Gibraltar. But I believe that a respectable case can be made out for saying that we are not legally obliged to notify such aid, and if there is substance in this view my inclination would therefore be to inform the Commission of the aid, to explain that this does not constitute a formal notification, and to give the reasons why in our view no formal notification is necessary.

The argument would proceed as follows. Since Gibraltar is a European territory for whose external relations the United Kingdom is responsible, there is no doubt that, in general, the EEC Treaty applies to it pursuant to Article 227(4). Moreover, Article 28 of the Act of Accession expressly provides that the Community rules on agriculture and on VAT are not to apply to Gibraltar, but says nothing about State aids.

What is however to my mind significant is that Gibraltar is not

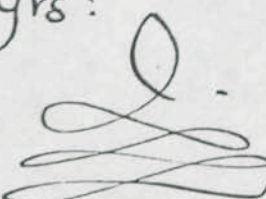
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included in the customs territory of the Community. The territorial extent of the customs union is governed by Council Regulation (EEC) No. 1496/68. In its original form this provided that the customs territory should cover the six original Member States, and in addition Monaco and San Marino. On our accession it was amended to include "the territory of the United Kingdom of Great Britain and Northern Ireland and of the Channel Islands and the Isle of Man" - but, significantly, not Gibraltar.

The reason State aids are restricted by the EEC Treaty is, of course, that they distort the free competition which is at the basis of the customs union. Thus Article 92(1) provides that any State aid is incompatible with the Common Market "insofar as it affects trade between Member States". Although Gibraltar is to be treated as if it were part of a Member State for most purposes, a State aid to the dockyard cannot affect trade between Member States, since Gibraltar is not part of the customs union. To my mind it can therefore be argued with some force that such a State aid is not incompatible with the Common Market, is not contrary to Article 92, and therefore does not have to be notified to the Commission under Article 93.

Though I have described this argument as plausible, I recognise that strong arguments can be mounted the other way. You may nevertheless like to consider whether, rather than not notifying this aid to the Commission at all, it might not be preferable to inform the Commission of it, explaining at the same time that there is in our view no legal requirement to notify the aid in accordance with Article 93. The legal argument would, of course, be buttressed by the political arguments which are put forward in the official paper.

I am copying this letter to the Prime Minister, other members of OD, Timothy Raison and Sir Robert Armstrong.

Yrs:  


26 JUL 1983



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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

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82



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GRS 340

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FM MADRID 221135Z JUL 83  
TO PRIORITY FCO  
TELEGRAM NUMBER 443 OF 22 JULY  
INFO GOVERNOR GIBRALTAR (PERSONAL), UKDEL NATO, UKREP BRUSSELS  
AND MODUK

GIBRALTAR AND EC

1. DURING A PRESS CONFERENCE WHICH MORAN GAVE ON 21 JULY ON SPAIN'S NEGOTIATIONS WITH THE EC HE ANSWERED SEVERAL QUESTIONS ON GIBRALTAR. HE SAID THAT HE EXPECTED TO MEET YOU IN SEPTEMBER WHEN YOU CAME TO MADRID FOR THE CSCE MEETING. HE DENIED A SUGGESTION THAT THE PRIME MINISTER'S REPLY IN THE COMMONS OF 19 JULY IMPLIED A BRITISH VETO AGAINST SPANISH ENTRY. HE SAID THE BRITISH POSITION WAS WELL KNOWN AND THAT BRITAIN SUPPORTED SPANISH ENTRY 'NOT ONLY WITH WORDS BUT DEEDS'. HE ADDED THAT HE DOUBTED WHETHER IT WAS IN BRITISH INTERESTS TO LINK THE PROBLEM OF GIBRALTAR TO SPANISH ENTRY TO THE EC AS IT WAS NOT CLEAR WHAT POSITION OTHER COMMUNITY MEMBERS WOULD TAKE ON SUCH AN ISSUE. HE SAID THAT SPAIN WOULD TRY TO BE GENEROUS TOWARDS GIBRALTAR'S POPULATION AND PROSPERITY AND THAT, IF THE UK WERE PREPARED TO CONCEDE RECIPROCITY OF RIGHTS FOR SPANIARDS IN GIBRALTAR, SPAIN WOULD BE PREPARED TO OPEN THE 'GATE' TO ALL TYPES OF TRAFFIC AND NOT ONLY PEDESTRIANS. HE SAID THAT IN THE EC CONTEXT HE WOULD PUT FORWARD A FORMULA ON GIBRALTAR RELATED TO THE RESTRICTIONS WHICH ARE APPLICABLE TO CERTAIN TERRITORIES AND THIRD COUNTRIES: HE DID NOT EXPECT THESE PROPOSALS TO BE DIFFICULT FOR LONDON TO ACCEPT. HE INSISTED, IN REACTION TO CRITICISM OF THE PARTIAL OPENING OF THE GIBRALTAR BORDER, THAT THE DECISION HAD BEEN POSITIVE AND THAT GIBRALTARIANS HAD MADE FULL USE OF THE OPENING.

/2.

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2. MORAN HIMSELF AND MFA BRIEFING HAVE PLAYED DOWN THE PRESS FLURRY WHICH UNREASONABLY FOLLOWED THE PRIME MINISTER'S REMARK IN THE COMMONS. THERE IS NO EVIDENCE THAT THE AFFAIR HAS AFFECTED UK/SPAIN RELATIONS. INDEED IT HAS TO SOME EXTENT BEEN POSITIVE THAT OUR VIEWS HAVE BEEN WIDELY DISSEMINATED. SPANISH OPINION HAS BEEN MADE AWARE THAT THEY CANNOT STAND PAT ON THEIR POSITION ON GIBRALTAR BUT MUST DEAL WITH THE PROBLEM IF THEY ARE TO JOIN THE EC. BOTH THE KING AND MORAN HAVE HOISTED IN THE NEED TO FOCUS ON THE ISSUE BY SEPTEMBER. THE POINT HAS GONE HOME AND I THINK WE SHOULD NOW AVOID FORCING MORAN INTO AN UNHELPFUL REACTION DESIGNED TO PACIFY SPANISH DOMESTIC OPINION.

PARSONS

[THIS TELEGRAM WAS NOT ADVANCED]

**GIBRALTAR**

LIMITED  
ECD (E)  
SED  
DEF D  
NEWS D  
PUSD

PLANNING STAFF  
PS

PS/LADY YOUNG  
PS/MR WHITNEY  
PS/FUS  
SIR J BULLARD  
MR JAMES  
MR CARTLEDGE  
MR HANNAY  
MR WRIGHT

ADDITIONAL DISTRIBUTION  
GIBRALTAR

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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

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



5/16

FOREIGN AND COMMONWEALTH SECRETARY

AR 25/7

f.c.

Thank you for your minute of 15th July about commercialisation of the Gibraltar Dockyard and the European Community.

2. In the circumstances, and for the reasons you adduce, I agree that we should not notify the European Commission of our grant in aid for commercialisation.

3. I am copying this to the recipients of your minute.

Ministry of Defence

22nd July 1983

GIBRALTAR: Policy Pt 4

5/11

25 J

1983



GRS 540  
CONFIDENTIAL  
FM MADRID 211222Z JUL 83  
TO PRIORITY FCO  
TELEGRAM NUMBER 439 OF 21 JULY  
INFO GOVERNOR GIBRALTAR (PERSONAL)

CONFIDENTIAL

*Read in file.*

TALK WITH KING OF SPAIN

1. THE KING ASKED ME TO CALL LAST NIGHT. HE SAID HE WANTED TO KEEP IN TOUCH. THE SITUATION OVER GIBRALTAR WAS DISTURBING. THERE WAS A LACK OF PERSONAL CONTACT BETWEEN MINISTERS OF THE TWO GOVERNMENTS. PUBLIC STATEMENTS ON BOTH SIDES WERE TENDING TO INCREASE THE PRESSURE. THE BRITISH PRIME MINISTER'S COMMENT IN THE HOUSE ON 19 JULY HAD BEEN SEIZED ON IN THE SPANISH PRESS. HE SAID THAT MRS THATCHER'S COMMENT REPRESENTED NOTHING NEW. IT HAD ALWAYS BEEN THE BRITISH POSITION THAT SPAIN COULD NOT ENTER THE COMMUNITY UNTIL ALL RESTRICTIONS ON THE GIBRALTAR FRONTIER WERE LIFTED. THE KING ACCEPTED THIS POINT. BUT HE SAID IT WAS NEVERTHELESS AN EXAMPLE OF THE SORT OF PRESSURE TO WHICH BOTH GOVERNMENTS WOULD BE SUBJECTED IF THERE COULD BE NO MEETING OF MINDS. HIS OWN FOREIGN MINISTER HAD TOLD HIM THAT THERE MIGHT BE AN OPPORTUNITY FOR YOU TO COME HERE AND TALK TO MORAN AT THE TIME OF THE CLOSURE OF THE CSCE CONFERENCE. THE KING THOUGHT THIS WOULD BE AN EXCELLENT IDEA. HE WANTED YOU TO KNOW THAT IT HAD HIS FULL SUPPORT. A MEETING IN SUCH CIRCUMSTANCES WOULD NOT AROUSE UNDUE PRESS ATTENTION. THE GREAT THING WAS SIMPLY TO START TALKING.

2. THE KING EMPHASISED THAT, FAILING THIS, THERE WAS A DANGER OF MORE UNHELPFUL STATEMENTS INCLUDING IN SUCH FORA AS THE UNITED NATIONS. AT THE SAME TIME IT WOULD BE A PITY TO HOLD UP EXCELLENT OPPORTUNITIES FOR COOPERATION. FOR EXAMPLE, HE HAD HEARD FROM THE CHIEF OF NAVAL STAFF ABOUT THE POSSIBILITY OF EXERCISES WITH THE ROYAL NAVY. NOR HAD HE AT ALL FORGOTTEN ABOUT THE ADVANTAGE OF AN EXCHANGE OF STATE VISITS WHEN THIS COULD BE ARRANGED.

3. THE KING EMPHASISED, AS HE HAS DONE WITH ME BEFORE, THAT THE REQUIREMENT WAS TO TAKE SOME STEP OVER GIBRALTAR WHICH WOULD KEEP PUBLIC OPINION QUIET FOR THE TIME BEING. IT SHOULD BE CLEARLY UNDERSTOOD IN PRIVATE BY BOTH GOVERNMENTS THAT IN FACT SPAIN DID NOT REALLY SEEK AN EARLY SOLUTION TO THE SOVEREIGNTY PROBLEM. IF SHE RECOVERED GIBRALTAR, KING HASSAN OF MOROCCO WOULD IMMEDIATELY ACTIVATE HIS CLAIM TO CEUTA AND MELILLA. THE TWO FOREIGN MINISTERS SHOULD REACH A PRIVATE UNDERSTANDING BETWEEN EACH OTHER, DIFFERENTIATING BETWEEN THEIR ACTUAL AIM AND THE METHODS USED TO PROPITIATE PUBLIC OPINION ON BOTH SIDES.

CONFIDENTIAL

14

CONFIDENTIAL

4. I EXPLAINED THAT WE WERE COMMITTED TO THE EARLY IMPLEMENTATION OF THE LISBON AGREEMENT. THIS WOULD HAVE TWO ADVANTAGES. IT WOULD START NEGOTIATIONS ON ALL OUTSTANDING PROBLEMS. ALSO BY REMOVING RESTRICTIONS IT WOULD HELP TO BRING THE GIBRALTARIAN PEOPLE CLOSER TO THEIR SPANISH NEIGHBOURS. THE KING AGREED. THIS WAS WHAT HE MEANT BY TALKING. I SAID THAT THERE WAS A GOOD POSSIBILITY THAT YOU MIGHT BE ABLE TO COME TO MADRID IN EARLY SEPTEMBER FOR DISCUSSIONS WITH MORAN AT THE TIME OF THE CLOSURE OF THE CSCE MEETING. THE KING SAID HE WAS VERY GLAD TO HEAR THIS. HE HOPED TO MEET YOU HIMSELF.

PARSONS

GIBRALTAR

LIMITED

SED  
DEF D  
NEWS D  
FUSD  
ECD (E)  
PLANNING STAFF  
PS

PS/LADY YOUNG  
PS/MR WHITNEY  
PS/PUS  
SIR J BULLARD  
MR JAMES  
MR CARTLEDGE  
MR HANNAY  
MR WRIGHT

ADDITIONAL DISTRIBUTION  
GIBRALTAR

2

CONFIDENTIAL

CONFIDENTIAL

GRS 820  
CONFIDENTIAL  
FM MADRID 211358Z JULY 83  
TO PRIORITY FCO  
TELEGRAM NUMBER 441 OF 21 JULY  
INFO GOVERNOR GIBRALTAR(PERSONAL)

MF

GIBRALTAR

1. THE SPANISH FOREIGN MINISTER SUMMONED ME AGAIN TODAY. BERDEJO WAS PRESENT. MORAN SAID (AS THE KING HAD DONE YESTERDAY) THAT HE WAS MORE THAN EVER CONVINCED THAT THERE SHOULD BE EARLY CONFIDENTIAL TALKS BETWEEN YOU AND HIM. PUBLIC STATEMENTS WERE NOT MAKING THINGS ANY EASIER. HE REFERRED IN THIS CONNECTION RATHER MILDLY TO THE PRIME MINISTER'S COMMENT IN THE HOUSE ON 19 JULY (MY TELNO 437). HE SAID, AS HE HAD DONE TO THE KING (SEPARATE TELEGRAM) THAT THIS REPRESENTED NOTHING NEW AT ALL. OUR POSITION ON THE REMOVAL OF RESTRICTIONS BEFORE SPANISH ENTRY INTO THE COMMUNITY HAD BEEN WELL KNOWN FOR YEARS. MORAN HAD BEEN CORRECT IN PLAYING THE MATTER DOWN WHEN BRIEFING THE SPANISH PRESS YESTERDAY (SEPARATE TELEGRAM). MORAN AGREED THAT IT WAS NOT A NEW DEVELOPMENT. BUT IT HAD AROUSED FRESH PUBLIC INTEREST AND TO THAT EXTENT IT INCREASED THE PRESSURE. HE HOPED VERY MUCH THAT YOU WOULD FEEL ABLE TO COME TO MADRID.

2. HE CONFIRMED THAT YOU WERE INDEED PLANNING TO DO SO PROVIDED THAT THERE WAS NO LAST MINUTE HITCH ABOUT THE TIMING (SEE UKDEL MADRID TELNO 192). YOU WERE PLANNING TO SPEAK TO THE CONFERENCE ON 7 SEPTEMBER BECAUSE YOU HAD TO BE BACK IN THE UK ON THE FOLLOWING DAY. HE THOUGHT YOU MIGHT BE ABLE TO COME ON 6 SEPTEMBER. PERHAPS THERE WOULD BE TIME ON THAT DAY FOR A BILATERAL WITH MORAN BEFORE THE CSCE MEETING BEGAN. MORAN SAID THIS WOULD BE IDEAL. AS YOU WOULD REALISE, THE EVENING ON 6 SEPTEMBER MIGHT BE COMPLICATED FOR EVERYBODY. HE WOULD BE MOST GRATEFUL IF YOU COULD MANAGE TO FLY TO MADRID ON THE MORNING OF 6 SEPTEMBER. HE WOULD OFFER LUNCH TO YOU AND YOUR PARTY FOLLOWED BY AN AFTERNOON WORKING SESSION AT THE FOREIGN MINISTRY. HE UNDERTOOK TO REPORT ACCORDINGLY. HE WOULD SEE CONSIDERABLE ADVANTAGE IN THIS PLAN. AS HOST FOREIGN MINISTER, MORAN MIGHT NOT BE ENTIRELY HIS OWN MASTER ON THE EVENING OF THAT DAY. BY GETTING OVER THE BILATERAL BUSINESS WITH SPAIN AT THE BEGINNING OF YOUR VISIT YOU WOULD FREE YOURSELF TO CONCENTRATE THEREAFTER ON THE CSCE AND POSSIBLE BILATERALS WITH OTHER FOREIGN MINISTERS. TIME PERMITTING, HE WOULD HOPE THAT YOU COULD ALSO SEE BOTH THE KING AND THE SPANISH PRIME MINISTER AT SOME POINT DURING YOUR STAY. THE KING IN PARTICULAR WILL WISH (SEE SEPARATE TELEGRAM) TO EXPLORE WIDER ISSUES SUCH AS SPANISH MEMBERSHIP OF NATO).

CONFIDENTIAL

/3. MORAN



CONFIDENTIAL

3. MORAN SAID FRANKLY THAT HIS MEETING WITH YOUR PREDECESSOR LAST MARCH HAD NOT BEEN A SUCCESS. THIS WAS BECAUSE MR PYM HAD BEEN TAKEN ABACK BY THE SPANISH POSITION AND HAD REACTED BY ACCUSING MORAN OF BAD FAITH. (I KNOW FROM BERDEJO THAT MORAN LARGELY BLAMES HIMSELF FOR THAT OUTCOME). WITH THIS IN MIND MORAN ASKED ME TO REPEAT TO YOU QUITE FRANKLY HIS BASIC POSITION. HE WANTED TO IMPLEMENT THE LISBON AGREEMENT AS SOON AS POSSIBLE. AND HE HOPED NOT TO BE PUT IN A POSITION WHERE HE HAD TO APPEAR TO BE GOING BACK ON THE EXCHANGE OF LETTERS OF JANUARY 1982. BUT HE TRUSTED YOU WOULD NOT PRESS HIM SPECIFICALLY ON THAT POINT. THE REALITY WAS THAT, IN TERMS OF PUBLIC OPINION HERE, THERE WERE TWO POINTS NOT COVERED IN THAT EXCHANGE OF LETTERS ON WHICH THE SPANISH GOVERNMENT MUST SEEK CLARIFICATION. ONE, AS WE KNEW, WAS THE FAMOUS ISSUE OF THE RIGHTS OF SPANIARDS IN GIBRALTAR. THE SECOND WAS THE QUESTION OF GIBRALTAR AIRPORT. THIS WAS A VERY NEURALGIC ISSUE IN SPAIN. THE AIRPORT WAS CONSTRUCTED ON THE ISTHMUS WHICH SPAIN DID NOT ACCEPT AS BRITISH SOVEREIGN TERRITORY. MORAN HAD TO WATCH HIS OWN PUBLIC OPINION. HE HAD BEEN STRONGLY CRITICISED BY THE OPPOSITION FOR OPENING THE FRONTIER LAST JANUARY TO CERTAIN CATEGORIES OF PEDESTRIANS. HE HOPED YOU WOULD UNDERSTAND HIS POLITICAL DIFFICULTIES. THESE WERE ROOTED IN A GENUINE PRACTICAL POINT. THE SPANIARDS STILL FEARED THAT BY BRINGING IN TOURISTS TO GIBRALTAR ON THE REDUCED DOMESTIC TARIFF AND THEN SYPHONING THEM INTO THE WESTERN PART OF THE COSTA DEL SOL, GIBRALTAR COULD UNDERCUT COMMERCIAL INTERESTS AT MALAGA.

4. I SAID IT WAS A CARDINAL POINT FOR US THAT THE REMOVAL OF ALL RESTRICTIONS ENVISAGED AT LISBON SHOULD INCLUDE COMPLETE USE OF GIBRALTAR AIRPORT FOR ALL PURPOSES. AT THE SAME TIME I SAW NO REASON WHY WE SHOULD NOT REITERATE OUR OFFER TO HOLD TECHNICAL TALKS ABOUT THE CIVIL AVIATION ASPECTS INCLUDING FARE PRICES ETC. GIVEN THE SMALL SIZE OF GIBRALTAR AIRPORT, I BELIEVE THAT SUCH TALKS WOULD LARGELY DISPOSE OF SPANISH PREOCCUPATIONS ON THAT SCORE.

5. BERDEJO, WHO HAS CLEARLY INFLUENCED MORAN INTO EMPHASISING THE NEED FOR ADVANCE PREPARATION, SAID THAT, IF YOU THOUGH IT USEFUL, HE WOULD BE PREPARED TO GO TO LONDON IMMEDIATELY AFTER THE SUMMER BREAK AND BEFORE YOUR VISIT TO HOLD PRELIMINARY TALKS WITH OFFICIALS. MORAN AGREED THAT THIS MIGHT BE A GOOD PLAN. HE REPEATED HIS ANXIETY THAT YOU SHOULD BE WELL BRIEFED IN ADVANCE ABOUT HIS POSITION, IN ORDER THAT YOUR TALKS WITH HIM MIGHT BE HELD ON A BASIS OF MUTUAL UNDERSTANDING. (PERHAPS THE BEST PLAN MIGHT IN FACT BE FOR A SENIOR OFFICIAL TO COME TO MADRID ON THE DAY BEFORE YOUR OWN ARRIVAL SO AS TO TLD ADVANCE TALKS WITH BERDEJO AND MYSELF AND THEN BRIEF YOU BEFORE SEEING MORAN IN PRACTICE I DOUBT WHETHER BERDEJO WILL HAVE MUCH NEW TO SAY.)

CONFIDENTIAL

6. COMMENT

IT IS PERHAPS NO BAD THING THAT SPANISH PUBLIC OPINION, AS WELL AS THE SPANISH GOVERNMENT, HAVE BEGUN TO UNDERSTAND THAT THE PRINCIPAL AIM OF SPANISH FOREIGN POLICY, ENTRY INTO THE COMMUNITY, COULD BE SHIPWRECKED ON THE ROCK OF GIBRALTAR. HENCE THE STRONG FEELING DISPLAYED BY THE KING AND THE FOREIGN MINISTER IN FAVOUR OF THE RESUMPTION OF TALKS AT FOREIGN MINISTER LEVEL. MORAN WILL CLEARLY TRY TO CONDUCT HIS TALK WITH YOU IN A CORDIAL MOOD. IN PARTICULAR HE IS LIKELY TO TRY TO AVOID THE PITFALL OF APPEARING TO RENEGE ON EXISTING SPANISH COMMITMENTS. NEVERTHELESS THERE CAN BE NO DOUBT OF HIS DETERMINATION, IN HIS OWN SELF DEFENCE AGAINST OPPOSITION ATTACKS, TO TRY TO OBTAIN CLARIFICATION SATISFACTORY TO SPAIN BOTH ABOUT THE AIRPORT AND ABOUT THE POSITION OF SPANIARDS IN GIBRALTAR. THE PROBLEM OF THE AIRPORT IS PROBABLY NOT INSOLUBLE AND MAY WELL BE BASED ON SPANISH MISAPPREHENSIONS, HARD THOUGH WE HAVE ALREADY TRIED TO REMOVE THESE.

7. ON THE OTHER HAND THE QUESTION OF COMMUNITY STATUS FOR SPANIARDS IN GIBRALTAR COULD WELL BE A VIRTUALLY INSOLUBLE PROBLEM FOR THE TIME BEING, GIVEN THE CURRENT ATTITUDE OF THE GIBRALTARIANS AND THE SPANIARDS. I HAVE BEEN MOST CAREFUL TO AVOID HOLDING OUT HOPES ON THIS SCORE. MORAN SHOULD THEREFORE BE WELL AWARE OF THE UNDERLYING DIFFICULTIES FACED BY BOTH GOVERNMENTS. AT THE SAME TIME HE IS PROBABLY RIGHT IN THINKING THAT A MEETING AT FOREIGN MINISTER LEVEL COULD RESTORE SOME DEGREE OF MUTUAL UNDERSTANDING. IT MIGHT BE WORTH DOING SOME ADVANCE WORK ON THE INTERESTING IDEA (ENCLOSURE TO CODRINGTON'S LETTER OF 13 JULY TO WILDE) THAT THE PROBLEM OF RECIPROCITY AND FULL EQUALITY OF RIGHTS SHOULD BE COPEDE WITH BY REMOVING RIGHTS IN GIBRALTAR AVAILABLE TO UK (AND PRESUMABLY NON-RESIDENT EC) CITIZENS RATHER THAN BY INCREASING THOSE APPLICABLE TO SPANIARDS.

PARSONS

[THIS TELEGRAM WAS NOT ADVANCED]

GIBRALTAR

LIMITED

SED  
DEF D  
NEWS D  
FUSD  
ECD (E)  
PLANNING STAFF  
PS

PS/LADY YOUNG  
PS/MR WHITNEY  
PS/FUS  
SIR J BULLARD  
MR JAMES  
MR CARTLEDGE  
MR HANNAY  
MR WRIGHT

ADDITIONAL DISTRIBUTION  
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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

C. Driller = Poluey P+4

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11 12 1  
21 JUL 1983

2.20

CONFIDENTIAL



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

20 July 1983

Roger Bone Esq.  
Foreign and Commonwealth Office

*MB 20/7*

*h.c.*

*Dear Roger,*

The Chancellor has seen the Secretary of State's minute to the Defence Secretary of the commercialisation of the Gibraltar Dockyard. He agrees that, in the special circumstances of this case, it would be right not to notify the European Commission of the grant in aid to help the Gibraltar Government to establish a commercial ship repair yard.

I am copying this letter to the Private Secretaries of other members of OD, the Minister for Overseas Development and Sir Robert Armstrong.

*Yours,  
JCS*

MISS J C SIMPSON  
Private Secretary

20 JUL 1951

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7 6 5 4

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

*From the Private Secretary*

19 July 1983

Commercialisation of the Gibraltar Dockyard and the  
European Community

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The Prime Minister has seen the minute of 15 July by the Foreign and Commonwealth Secretary to the Defence Secretary on this subject.

Subject to the views of other members of OD, the Prime Minister agrees that, for the reasons adduced by Sir Geoffrey Howe, we should not notify to the European Commission our grant in aid for a commercial ship repair yard in Gibraltar.

I am copying this letter to the Private Secretaries to other members of OD, the Minister for Overseas Development and Sir Robert Armstrong.

A. J. COLES

Roger Bone, Esq.,  
Foreign and Commonwealth Office.

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HL





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



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.

/When



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.

/The



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



FCS/83/132

Amend  
not

The Foreign Secretary considers that we should not notify the European Commission our aid for a commercial dockyard in Gibraltar.

A.J.C. 18/7

SECRETARY OF STATE FOR DEFENCECommercialisation of the Gibraltar Dockyard and the Community

1. As you know, we have been discussing with the Gibraltar Government a grant in aid of about £25 million to help them establish a commercial ship repair yard there following the closure of the Naval dockyard, and I have been considering what we should do about notifying this aid to the European Commission. We shall have to be prepared to move swiftly after the talks are concluded, and the detailed content of an agreement is unlikely to affect the pros and cons of notification. I therefore think that we should address this issue now.
2. When this subject was discussed in OD on 4 November last year, Ministers then accepted that notification and Commission consent would be needed. There is no doubt that notification would be consistent with our normal practice, and our normal interpretation of the relevant Community rules. But this aid is indispensable to our plans for Gibraltar's future and it would be politically impossible for us to allow the Community to get in its way. The question is whether we can minimise the risks of this happening by notifying or by not notifying. I believe that the arguments are fairly finely balanced, but that - exceptionally - it would in this case be right for us not to notify.
3. The arguments which have led me to this conclusion are set out in detail in the attached paper by officials. The position is that Gibraltar is, for this purpose, within the area of application of the EEC Treaty. Though a reasonable

/case can



case can be made to the contrary (and is in the attached paper), there is little doubt that the proposed aid constitutes a State Aid which should be notified to the Commission. But notification would almost certainly lead to lengthy Commission scrutiny of the aid and delays for the dockyard project, even if one takes into account the extra time provided by the delay in commercialisation now being discussed with the Gibraltarians. Nor can we ever guarantee the outcome of the Commission's scrutiny 100%. There is the further risk that notification could complicate negotiations over our plans to aid British Shipbuilders, which we shall need to clear with the Commission in the autumn.

4. This increases, in the unique circumstances of this particular project, the attractions of non-notification. Although it will clearly be impossible to avoid publicity for the aid, if the Commission do pick it up (and there is just a chance that they might not) they might well choose not to act in view of its obvious political sensitivity. If, however, we were challenged by the Commission about the aid, there are, as I have said, arguments which could be used to justify non-notification; and if the Commission insisted on notification we could deploy the kind of arguments also set out in the attached paper to justify the aid. We should then be in no worse a situation than if we had notified: indeed our tactical position vis-a-vis the Commission would be the stronger for not having conceded from the outset that the aid was notifiable, and this might to some extent ease the task of persuading the Commission to allow the aid. The risk - very slight in my view - would exist in the case of non-notification, as in the case of notification, that in spite of all our representations the Commission would decide that the aid was not justified, particularly if there were complaints from other Member States. There is, in the case of non-notification only, also the risk that the Commission could require aid already disbursed to be repaid. But this would be unprecedented and I judge the risk a very slight one.





5. There are risks and uncertainties and potentially serious difficulties in whatever course of action we choose. But although the safest course legally would be to notify, I have come to the conclusion that on balance the way of proceeding least likely to cause difficulty and delay (and commercial damage for the yard) would be not to notify. I would stress that this course of action would be exceptional; that it lessens but does not obviate the risk that the Commission might open an Article 93(2) procedure; and that, in the worst case, we might find ourselves illegally providing state aids to Gibraltar while proceedings were being taken against us in the European Court. In that event (the likelihood of which I rate very low) it would be necessary for the investment to go ahead in defiance of the Commission and/or the Court.

6. I am copying this minute to other members of OD, to Timothy Raison and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'J.H.', is located in the lower right quadrant of the page.



Commercialisation of the Gibraltar Dockyard: EC Aspects

Introduction

1. We need to decide whether or not to notify to the European Commission our plan to provide about £28 million grant in aid to help the Gibraltar Government establish a commercial ship repair yard following the closure of the Naval dockyard. Details of the package of support measures are annexed to this paper.

2. Gibraltar is part of the Community by virtue of being a European territory for whose external relations the UK is responsible and, with certain exceptions, the Treaty of Rome applies to it. Under Article 93(3) the Commission should be informed of any plans to give aid so that they can decide whether the aid would distort competition and thus be contrary to the Community interest. If they so decide, they are required under Article 93(2) to ban it and, if necessary, to launch infraction proceedings leading to the European Court. As aid to ship repair is covered by the EC's Fifth Shipbuilding Directive, and given the current over-capacity in the ship repair sector, the Commission could certainly claim to have a legitimate interest in the aid.

3. The risk of challenge from the Commission exists independently of whether we notify or not. We shall have to be prepared if necessary to bring great political pressure to bear to ensure either that the Commission do not open a formal procedure under Article 93(2), or that if they do, they bring it to a close without instituting infraction proceedings. We should have to stress:

/i)



- i) the unique political problems arising from Spanish efforts to undermine Gibraltar's economy;
- ii) the disproportionate effect of the unemployment which would follow a closure of the naval dockyard without anything to replace it;
- iii) the disastrous effects on confidence in and commercial viability of the new yard if a procedure was opened and aid was expected to stop;
- iv) the fact that there will be no physical increase in capacity; although the handover from naval to civilian use could be counted as an increase in commercial capacity, there would be no net increase in total capacity in the Community in view of the closures of naval dockyards both in Gibraltar and the UK.

4. The strong likelihood is that, in the face of such pressure, the Commission would not open infraction proceedings. We must nonetheless be prepared for the worst case - an adverse judgement by the Commission, if necessary supported by the European Court, that we make no, or no further, payments to Gibraltar. Given the indispensability of the aid to Gibraltar's future, it is hard to conceive that we could comply with such a judgement.

5. This leaves the further decision of whether we can best minimise the likelihood of obstruction and delay by the Commission to our plans in Gibraltar by notifying or not notifying.

#### THE OPTIONS

6. There are three options:

/a)



- a) to notify;
- b) not to notify; and
- c) not to notify, but to try to square the Commission informally in advance.

a) Notification

7. Notification is, quite rightly, our normal practice, which is why when the subject was discussed in OD on 4 November 1982 it was accepted by the Committee that notification and Commission consent would be needed.

8. But to notify would lead to difficulties and delay. Whilst no doubt appreciating the political justification for the aid, the Commission would feel bound, if the aid was thus formally drawn to their attention, to scrutinise the case thoroughly and could well decide to open a formal procedure which would involve consulting other Member states. Our own scrupulousness would earn us little credit. Clearance of the aid would be further complicated if other Member States raised objections. It could be many months before the Commission felt able to close the procedure; and as long as the procedure remained open no aid could legally be paid to the Gibraltar Government. It is true that no capital investment will be started until the intended management company have negotiated satisfactory labour contracts with the dockyard workforce, a difficult task which could take some months. There is other preparatory work which could be undertaken during this period: invitations to tender, legislation to establish the commercial company. Nonetheless, we need to avoid a situation in which, once these preparatory

/steps



steps have been completed, we should still be precluded from releasing funds for capital expenditure to set up the commercial yard, which will be an essential element in sustaining the Gibraltar economy when the naval yard is closed. Delay and uncertainty could jeopardise the commercial prospects of the yard. We cannot guarantee that the Commission's decision would in the end be favourable (though experience suggests that it very probably would be).

9. All this would be taking place at about the same time as we would be asking the Commission for approval of aid to British Shipbuilders. Our efforts to persuade the Commission to approve the Gibraltar aid might well use up credit which we shall need for the British Shipbuilders case.

10. It could be argued that the delay of six months offered to the Gibraltar Government before commercialisation of the dockyard (or any other delay which might be negotiated) provides time enough to go through the hoops of notification. Once the Gibraltar Government has agreed to commercialisation, and agreed a date for closure of the naval dockyard and thus a vesting day for commercialisation, satisfactory agreements will have to be made with the workforce about working practices. Once all this has been done, the Gibraltar Government will expect, and we shall be ready to make, capital and other disbursements for conversion work to begin: the notification process could still prevent us from starting these payments. And with the start of commercialisation delayed, it would be more difficult to persuade the Commission to close any formal procedure quickly, so that the scope for other Member States to make trouble might be protracted.

/B



B. Non-Notification

11. Against this background, and given the rather special nature of the aid to Gibraltar, it is worth considering the alternative of non-notification.

12. This too is not without risks:

(a) Should we be challenged in the Community after we had started disbursing the aid, we should be legally obliged to stop disbursements. The Commission could even require the repayment of aid already disbursed, but this would be unprecedented. Even refraining from further disbursements would, however, cause serious problems. An interruption to work once started would be much more damaging than a delayed start, especially in the first year of operation before the No 1 Dock is ready to take the high value work promised by large ships. Moreover, if investment were interrupted by Commission procedure or Court proceedings, we would be exposed to PAC criticism for incurring nugatory expenditure. If, therefore, we decide to proceed without notification it would be essential also to decide now that the project must go ahead without interruption, if necessary in defiance of the Commission and the European Court;

(b) Non-notification would not necessarily guarantee that there would not be complications for British Shipbuilders. If we were challenged as to why we had not notified while the British Shipbuilders' aid was still being considered, the atmosphere of the latter case would be soured.

13. Against this, there are clear practical advantages in not notifying. We should be able to proceed with the aid on schedule; we should be facing no greater risk of incurring an adverse decision than if we had notified; and we should be in a better tactical position and with a better choice of arguments to deploy to justify the aid if we were challenged.

14. First of all, there is a chance - although perhaps not a very large one - that the Commission would turn a completely blind eye. They are unlikely to remain wholly unaware of the aid; UKREP had a very informal word with a Commission official about it some months ago, and it is quite likely that they



would read about it in the trade press (eg Lloyds List). But Gibraltar is not an area on which the Commission's attention is normally focussed and they might feel under no obligation to be concerned with what goes on there unless it were brought forcefully to their attention. UKREP Brussels have therefore advised that the risk of a challenge from the Commission or Member States will be much affected by the amount of publicity given to the aid and to HMG's role in the dockyard commercialisation in the UK press. Publicity at the time of agreement with Gibraltar is unavoidable; although it should die down considerably before any money is actually spent. There has already been Parliamentary interest, and Sir J Hassan will need to work hard to sell any package on the dockyard to opinion in Gibraltar. Gibraltar's southern Mediterranean neighbours, France, Italy (and probably Greece too) aid their own ship repair yards and are not strongly placed to complain, but they are all potential competitors and could see a commercial interest in challenging the aid. (Spain, with a still greater motive for making trouble, is not yet a member of the Community).

15. We should therefore have to be ready to deal with the Commission challenge, and to have ready some plausible reasons for not having notified. We believe there are three main arguments on which we could draw as appropriate. These are, in descending order of effectiveness:

- (i) the continuing defence role of the dockyard, since it would continue to provide certain services for adjoining naval base and other defence interests on Gibraltar including refitting of harbour craft and other MOD vessels and possibly docking facilities for nuclear submarines. There is also the intention to allocate a substantial volume of Royal Fleet Auxilliary work to the commercial yard in its early years;



- (ii) the fact that this was a normal commercial investment by the Government in a Government-owned enterprise which was expected to break even after a few years (the Government of Gibraltar can be considered to be the equivalent of HMG for Community purposes);
- (iii) the fact that this was ODA money and should therefore be seen as normal development aid (this may not easily be used in conjunction with (ii) above).

16.. If, however, the Commission were unconvinced by those arguments, and insisted on taking the matter further, we should be willing to provide the Commission with details of the project; while, if necessary, bringing pressure to bear to prevent the opening of a formal procedure in exactly the same way as we should if we had notified. We should then have lost little by having failed to do so.





C. Inform the Commission of our intention not to notify

17. This would be a hybrid course of action between notification and non-notification. The objective would be to secure an assurance from the Commission that they would not make trouble, without incurring the delay involved in formal notification. But however sympathetic the Commission were, they would have to reserve their position on the action they might need to take if another Member State complained about the aid, and we should make it a good deal more difficult for them simply to turn a blind eye to it. They could well insist that we notified the aid forthwith. This option does not therefore offer obvious advantages over the others considered.

Conclusion

18. Whatever we do has risks and uncertainties. We have always believed that at the end of the day we could clear the aid through the Commission on the strength of our political case. But recent events have shown that the Commissioner responsible for state aids, Mr Andriessen, can be highly resistant to political arguments. We must therefore be cautious about the outcome, whether or not we notify. Non-notification improves the chance that the Commission will not take proceedings against us which would delay the start of the project and give us a better hand to argue if the Commission did start proceedings. There could be the problem that, with proceedings started, we should be under legal pressure to stop disbursements already in train. But the Commission would be unlikely to take drastic action against us for continuing the programme unless they also intended to find against us on the substantive issue in any case. Against this background the right course seems on balance to be not to notify; to be ready to argue the political case strongly with the Commission should they challenge us; and to decide now to proceed in any event to the completion of the investment.



Support Measures Relating to Commercial Dockyard in Gibraltar

1. Provision, through ODA, of funds limited to a total of £25 million to support the setting up of a dockyard if the Gibraltar Government confirm that they wish for such aid. Since the project's success depends crucially on improved productivity ODA will need to be sure that Appledores are fully satisfied that they have agreement with the workforce to efficient working practices which will provide the basis for a commercially viable operation.
2. Free transfer of dockyard land and buildings.
3. Work to be made available on Royal Fleet Auxiliary vessels over a three year period to the value of about £11 million. (Over and above the RFA work, there would be work worth about £0.75 - £1.0 million per year on naval harbour craft tenders).
4. Provision by MOD on a three year lease to Appledores of 46 houses/apartments for use by staff of the new commercial dockyard in order not to encroach on limited housing market.
5. MOD works programmes which are expected to provide significant new work for local contractors.
6. HMG will be prepared to review the land and houses required for defence purposes in Gibraltar and investigate the possible release of property not essential for defence. This will be related to a land use survey by the Gibraltar Government.
7. £13 million of development aid offered by ODA in December 1982 is now being committed to specific projects.
8. Generous redundancy payments and pensions on the same lines as those given to UK Public Service employees. (See attached examples of immediate cash payments ranging from £1,200 to over £12,000; in many cases pensions will be payable in addition to these lump sums).
9. A new agreement on the transfer of defence lands.

Controlled: Policy Pty



10 DOWNING STREET

Prime Minister

Gibraltar.

mb

Hassan has replied.

He now seeks a one year  
debarment of closure (which we  
can agree to) but wants the  
early transfer of two prime  
NOB sites (which may be  
difficult).

The F./C.O. and R.O.D. are  
considering. You should receive  
advice tomorrow.

A.F.C.  $\frac{13}{7}$ .

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FROM GIBRALTAR 121830Z JUL 83  
TO IMMEDIATE FCO TEL NO PERSONAL 94 OF 12 JUL 83  
INFO IMMEDIATE MOD FOR CFS AND DS12  
IMMEDIATE ODA

MY TELNOS PERSONAL 91, 92 AND 93.

1. THE GIBRALTAR GOVERNMENT REQUESTS THE TRANSFER TO THEM OF TWO SPECIFIC SITES, THAT IN QUEENSWAY FROM DOCKYARD NORTH GATE TO THE TECHNICAL COLLEGE AND THAT FROM NAPIER BATTERY ALONG THE LITTORAL TO ROSIA BAY AND TO THE WEST OF NUFFIELD POOL.

2. THE QUEENSWAY BID COVERS THE NAAFI WAREHOUSE/OFFICES/FLATS: MOD STORES AND SCOUTS CLUB: THE WATERMANSHIP TRAINING CENTRE/SLIPWAY THE QUEENSWAY SPORTS CLUB AND THE TECHNICAL COLLEGE. THEIR INTENTION IS THOUGHT TO BE TO MAKE THIS AREA AVAILABLE FOR PRIVATE DEVELOPMENT AS HOLIDAY FLATS OR A HOTEL. THE PSA MARITIME SECTIONS COMPRISE THREE BRICK BUILDINGS WITH AN AREA OF 1600 SQUARE FEET AND BERTHING FOR THE DREDGER, HARBOUR LAUNCH, DIVING BOAT AND THREE BARGES. THE SEA SCOUTS CLUB, THE FIRST FLOOR OF ONE BUILDING, COMPRISING APPROXIMATELY 500 SQUARE FEET. MOD HAVE REGARDED A WATER SIDE BERTH AS ESSENTIAL FOR THE MARITIME SECTION AS NO OTHER BERTH COULD BE OFFERED TO THE PSA. THE ESTIMATED COST OF RE-PROVISION HAS BEEN £60,000. THE SERVICES DO NOT APPEAR TO HAVE SURPLUS BUILDINGS LARGE ENOUGH TO ACCOMMODATE THE SEA STORES AT QUEENSWAY WHICH CONSIST OF 45,000 SQ FT OF COVERED AND OPEN AREA. RE-PROVISION HAS BEEN ESTIMATED AT £1 MILLION.

3. THE ROSIA BAY JETTY COMPLEX IS ENVISATED AS A MULTI-PURPOSE TOURIST DEVELOPMENT EMBRACING PARSONS LODGE, THE ROSIA BAY OFFICERS' SWIMMING CLUB AND NAPIER BATTERY (EXCLUDING FORTRESS HEADQUARTERS). THE ROSIA MOLE IS USED FOR OPERATIONAL DIVING AND AS A BASE FOR NAVAL CONTROL OF SHIPPING ACTIVITIES IN TIME OF TENSION AND WAR. IT IS BOUNDED BY THE OPERATIONALLY ACTIVE FORTRESS HEADQUARTERS AND IS ALSO USED FOR TWO SWIMMING CLUBS FOR SERVICE AND UK BASED CIVILIAN FAMILIES. THE MOLE REQUIRES CONSTANT UP-KEEP AND IN THE CURRENT FINANCIAL YEAR PSA PLAN TO SPEND £80,000 FOR THIS PURPOSE. THE SWIMMING CLUBS ARE CONSIDERED BY SERVICE COMMANDERS TO BE AN IMPORTANT MORALE FACTOR TO THOSE SERVING IN GIBRALTAR.

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/4. THE

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4. THE GIBRALTAR PAPER IS SILENT ON THE QUESTION OF RE-PROVISION FOR THESE FACILITIES. AS YOU KNOW THE NORMAL PRACTICE WOULD BE THAT ITEMS NOT SURPLUS TO DEFENCE REQUIREMENT WOULD BE RE-PROVISIONED AT GIBRALTAR GOVERNMENT EXPENSE.

5. WHATEVER MAY HAVE BEEN GIBRALTAR'S RECORD ON THE EFFICIENT USE OF LAND MADE AVAILABLE, THE FACT IS THAT GIBRALTAR MINISTERS ARE NOW CONVINCED BOTH THAT THEIR PROGRAMMED FOR ECONOMIC DIVERSIFICATION AND ITS PRESENTATION AS PART OF THE OVERALL PACKAGE NEGOTIATED WITH HMG ARE VITAL.

6. MY SERVICE COMMANDERS HAVE NOT REPEAT NOT BEEN GIVEN DETAILS OF THE GIBRALTAR GOVERNMENT APPROACH BUT I SHALL HAVE TO TELL THEM VERY SOON. THEY ARE BOUND TO TAKE THE VIEW THAT BOTH FOR OPERATIONAL AND MORALE REASONS THE PROPOSALS ARE UNWELCOME. IN MY DUAL AS GOVERNOR AND COMMANDER IN CHIEF IT WILL BE IMPORTANT FOR THE INSTRUCTIONS REACHING ME TO BE AGREED BETWEEN THE FCO AND THE MOD

WILLIAMS

BT

**GIBRALTAR**

**LIMITED**

SED  
DEF D  
NEWS D  
PUSD  
ECD (E)  
PLANNING STAFF  
PS

PS/LADY YOUNG  
PS/MR WHITNEY  
PS/FUS  
SIR J BULLARD  
MR JAMES  
MR CARTLEDGE  
MR HANNAY  
MR WRIGHT

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FROM GIBRALTAR 121650Z JUL 83

TO IMMEDIATE FCO TEL NO PERSONAL 93 OF 12 JUL 83

INFO IMMEDIATE MOD FOR CFS AND DS12

IMMEDIATE ODA

MY TWO IPTS: GIBRALTAR DOCKYARD

1. HASSAN CALLED ON ME THIS EVENING TO DISCUSS FURTHER THE GIBRALTAR GOVERNMENT'S RESPONSE TO HMG'S OFFER.
2. HE WAS IN A RELAXED AND CHEERFUL MOOD AFTER EMERGING FROM WHAT HE ADMITTED TO BEING DIFFICULT PASSAGES WITH HIS COLLEAGUES. ON SEVERAL OCCASIONS HE REFERRED TO THE ABSOLUTE NEED FOR BRITAIN AND GIBRALTAR TO MOVE FORWARD TOGETHER WITH GOODWILL. HE FELT THAT THE GIBRALTAR POSITION WAS AS FAR AS THEY COULD GO IN MEETING HMG AND IT WAS CLEAR THAT HE ENVISAGED GREAT DIFFICULTIES IF HIS PROPOSALS WERE UNACCEPTABLE IN LONDON.
3. HE UNDERLINED THE GIBRALTAR POSITION THAT NEITHER THE £13 MILLION DEVELOPMENT AID NOR THE LANDS MEMORANDUM COULD LEGITIMATELY BE REGARDED AS FORMING PART OF THE DOCKYARD PACKAGE. HE PLACED PARTICULAR EMPHASIS ON THE SECTION OF THE GIBRALTAR PAPER (10 AND 11 OF MY SECOND TUR) DEALING WITH THE AVAILABILITY OF LAND SUITABLE FOR DEVELOPMENT. HE THOUGHT THAT A BREAKTHROUGH IN THIS AREA WOULD HAVE A PARTICULAR IMPACT ON PUBLIC OPINION AND WOULD MEAN THAT THE CONTINUING MOD ACTIVITIES IN GIBRALTAR WOULD BENEFIT AS A RESULT OF ~~TWO~~ THE PUBLIC ATTITUDE SO CREATED. IT WAS QUITE CLEAR THAT HASSAN DID NOT REPEAT NOT CONSIDER THE LAND QUESTION AS A DETAIL. RATHER IT HAS BECOME VERY CLOSE TO THE HEART OF THE GIBRALTAR POSITION AND PRESENTATIONALLY VITAL FOR PROGRAMME OF ECONOMIC DIVERSIFICATION THOUGH IT MAY BE TO ACHIEVE, THE TRANSFERS MUST BE ACHIEVED AS ONLY IN THIS WAY CAN WE LOOK TO THE GIBRALTAR GOVERNMENT TO PLAY ITS FULL PART IN SELLING THE IDEA OF COMMERCIALISATION.
4. HASSAN SAID THAT THE GIBRALTAR GOVERNMENT HAD COME A LONG WAY TO MEET BRITISH REQUIREMENTS AND THEIR CURRENT PROPOSALS STILL AMOUNTED TO A SEVERE CHALLENGE TO HIS GOVERNMENT. IT WAS HOWEVER ONE WHICH HE FELT ABLE TO CONFRONT.
5. I SOUNDED HASSAN ON HIS WISHES AS FAR AS A FURTHER VISIT TO LONDON WAS CONCERNED. HE SAID THAT FROM THE PRESENTATIONAL STANDPOINT IT WOULD BE VERY DESIRABLE IF GIBRALTAR'S PROPOSALS WERE ACCEPTABLE IF HE COULD HAVE FURTHER SHORT MEETING WITH THE PRIME MINISTER. IN THIS WAY (AND HE MADE NO BONES ABOUT IT) HE WOULD BE SEEN TO BRING HOME THE BACON. HE WAS EQUALLY FIRM IN SAYING THAT HE DID NOT REPEAT NOT WISH TO BE INVOLVED IN FURTHER MEETINGS IN LONDON IF THESE MEANT HAGGLING OVER DETAILS.

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6. ALL OF THE EVIDENCE THAT WE HAVE OBTAINED IN RECENT DAYS SUGGESTS THAT HASSAN HAS HAD A DIFFICULT TIME WITH HIS COLLEAGUES AND I DO NOT BELIEVE HE COULD CARRY THEM WITH HIM IN FURTHER CONCESSIONS. I THEREFORE TAKE PARA 4 OF HIS MESSAGE TO ME (MY FIRST TUR) AT ITS FACE VALUE.

WILLIAMS

BT

## GIBRALTAR

### LIMITED

SED  
DEF D  
NEWS D  
FUSD  
ECD (E)  
PLANNING STAFF  
PS

PS/LADY YOUNG  
PS/MR WHITNEY  
PS/FUS  
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TO IMMEDIATE FCO TEL NO PERSONAL 92 OF 12 JUL 83  
INFO IMMEDIATE MOD FOR CFS AND DS12  
IMMEDIATE ODA

MIFT: GIBRALTAR DOCKYARD

1. FOLLOWING IS TEXT OF PAPER BY GIBRALTAR COUNCIL OF MINISTERS ON COMMERCIALISATION OF RN DOCKYARD.

THE VIEWS OF GIBRALTAR GOVERNMENT MINISTERS WERE SET OUT IN THE STATEMENT ENCLOSED WITH THE CHIEF MINISTER'S LETTER TO THE GOVERNOR OF 21 JUNE 1983. THE DISCUSSIONS AND EXCHANGES WHICH HAVE TAKEN PLACE SINCE THEN HAVE NOT MATERIALLY ALTERED THOSE VIEWS AND GIBRALTAR MINISTERS CONTINUE TO BE GRAVELY CONCERNED ABOUT THE SOCIAL, ECONOMIC AND POLITICAL EFFECTS OF EARLY CLOSURE OF THE NAVAL DOCKYARD. THEY ARE GRATEFUL FOR THE PRIME MINISTER'S OFFER TO DEFER CLOSURE UNTIL 30 JUNE 1984 AND TO PROVIDE AN EXTRA £3M WORTH OF ASSURED WORK ON ROYAL FLEET AUXILIARIES.

2. GIBRALTAR MINISTERS HAVE NOTED, AND ARE GRATEFUL FOR, THE RECOGNITION THAT THEIR PROPOSALS FOR A TRANSITIONAL PERIOD WERE FRAMED SO AS TO GIVE TIME FOR READJUSTMENTS IN GIBRALTAR'S ECONOMY AND INFRASTRUCTURE IF THE CHANGE IN DOCKYARD OPERATIONS IS TO BE MANAGED WITHOUT UPHEAVAL. AFTER THE MOST CAREFUL STUDY OF THE WORKING PAPER BY UK OFFICIALS, THEY REGRET THAT THE NEED FOR MEASURES TO OFFSET THE SERIOUS EFFECTS OF THE CLOSURE OF THE NAVAL DOCKYARD AND TO AVOID SUCH AN UPHEAVAL WILL NOT BE MET UNLESS AN ADEQUATE TRANSITIONAL PERIOD IS PROVIDED.

3. GIBRALTAR MINISTERS FULLY UNDERSTAND AND APPRECIATE THE POINT WHICH HAS BEEN MADE TO THEM THAT REALISATION BY THE WORKFORCE OF THE FINALITY OF THE CLOSURE DECISION AND OF THE IMMINENCE OF CLOSURE COULD BE A POWERFUL STIMULUS TO REACHING AGREEMENT ON CHANGES IN WORKING PRACTICES.

4. IF THE GIBRALTAR GOVERNMENT FINALLY DECIDE TO ADOPT THE PROPOSALS FOR COMMERCIALISATION, THEY WILL MAKE IT ABSOLUTELY CLEAR IN THE HOUSE OF ASSEMBLY, AND OUTSIDE, THAT AN ESSENTIAL ELEMENT IN THE SUCCESS OF THE PROJECT WILL BE THE ACHIEVEMENT OF COMMERCIAL WORKING PRACTICES AND THAT EARLY DISCUSSIONS ON THIS WILL BE NECESSARY. THEY WILL ALSO MAKE IT CLEAR THAT THERE COULD BE NO PROSPECT WHATEVER OF ANY FURTHER DEFERMENT OF CLOSURE BEYOND A /DATE

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DATE AGREED WITH HER MAJESTY'S GOVERNMENT. ONCE COMMITTED TO COMMERCIALISATION, THEY WOULD AGREE TO AN EARLY ANNOUNCEMENT OF THE DATES OF THE DECLARATION OF A STATE OF REDUNDANCY AND OF THE ISSUE OF INDIVIDUAL REDUNDANCY NOTICES. THEY HAVE NO DOUBT THAT, AS A RESULT OF ALL THESE MEASURES, THE REALITY AND IMMINENCE OF THE CHANGE WOULD THEN BE FULLY UNDERSTOOD BY EVERYONE HERE. THUS, ON THE ONE HAND, THE NEED TO PROVIDE A STIMULUS FOR THE WORKFORCE AND, ON THE OTHER HAND, GIBRALTAR MINISTERS' TOTAL CONVICTION OF THE NEED FOR AN ADEQUATE TRANSITIONAL PERIOD ARE RECONCILABLE IN PRACTICAL TERMS.

5. AFTER MOST THOROUGH CONSIDERATION AND DISCUSSIONS, WHICH HAVE NOT BEEN WITHOUT DIFFICULTY, AND AFTER TAKING FULLY INTO ACCOUNT HER MAJESTY'S GOVERNMENT'S VIEWS ON THE NEED FOR A SHORTER TRANSITIONAL PERIOD THAN THAT PREVIOUSLY PROPOSED, GIBRALTAR MINISTERS HAVE CONCLUDED THAT ~~TO COMMENCE~~ ~~CONFIDENTIAL~~ MINIMUM PERIOD WHICH THEY COULD COLLECTIVELY FIND ACCEPTABLE AND WHICH THEY WOULD BE PREPARED TO PROMOTE IN THE HOUSE OF ASSEMBLY WOULD BE ONE ENDING ON 31 DECEMBER 1984. A TWO-YEAR PERIOD WOULD HAVE BEEN MORE LIKELY TO SECURE GENERAL LOCAL ACCEPTANCE. THE PROSPECTS OF THIS WOULD BE DIMINISHED BY A REDUCTION IN THE PERIOD BUT GIBRALTAR MINISTERS WOULD NEVERTHELESS BE PREPARED TO ADVOCATE COMMERCIALISATION ON THE BASIS OF A ONE-YEAR TRANSITIONAL PERIOD AND ON THE BASIS SET OUT BELOW IN RELATION IN PARTICULAR TO THE NEED TO DIVERSIFY THE ECONOMY THROUGH THE DEVELOPMENT BY THE PRIVATE SECTOR OF CERTAIN LANDS AT PRESENT HELD BY THE MINISTRY OF DEFENCE.

6. THE GIBRALTAR GOVERNMENT'S MAJOR ANXIETY IS THE SEVERE STRAIN WHICH CLOSURE OF THE NAVAL DOCKYARD WILL IMPOSE ON A SMALL AND FRAGILE ECONOMY, BOTH GENERALLY AND, IN PARTICULAR, ON BUDGETARY AND BORROWING CONSTRAINTS AND ON A CONTINUED REDUCTION OF PRIVATE SECTOR INVESTMENT BECAUSE OF INCREASING UNCERTAINTY AND LACK OF CONFIDENCE. THEY ARE SPECIFICALLY TROUBLED BY THE FOLLOWING POINTS:

(A) CONSISTENT ADVICE FROM MAJOR CONSULTANCIES OVER THE PAST TWO YEARS THAT A COMMERCIAL SHIP REPAIR YARD WILL NOT FILL THE GAP IN THE ECONOMY LEFT BY THE CLOSURE OF THE NAVAL DOCKYARD:

(B) THE INABILITY OF GIBRALTAR IN ITS SERIOUSLY WEAKENED ECONOMIC CONDITION TO FUND COMMERCIAL DOCKYARD LOSSES:

(C) THE SERIOUS ADVERSE IMPACT ON THE ECONOMY BROUGHT ABOUT BY THE PARTIAL AND DISCRIMINATORY OPENING OF THE FRONTIER: AND

(D) THE ABSENCE OF A SPECIFIC COMMITMENT TO THE TRANSFER OF LAND NOW HELD BY THE MINISTRY OF DEFENCE WHICH IS URGENTLY REQUIRED FOR DEVELOPMENT PROJECTS.

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7. THE GIBRALTAR GOVERNMENT DO NOT ACCEPT THAT THE £13M DEVELOPMENT AID IS CONNECTED IN ANY WAY WITH THE CLOSURE OF THE DOCKYARD. IT COVERS PROJECTS IDENTIFIED IN THE GIBRALTAR DEVELOPMENT PLAN SUBMITTED TO UK DEPARTMENTS EARLY IN 1981 WELL BEFORE DOCKYARD CLOSURE WAS PROPOSED. ALTHOUGH THEY WILL BENEFIT THE GIBRALTAR ECONOMY, AND WE ARE GRATEFUL FOR SUCH HELP, THE PROJECTS ARE NOT ADDRESSED TO DEALING WITH THE WIDER EFFECTS ARISING FROM CLOSURE. THAT AID RELATES INSTEAD TO THE BRITISH GOVERNMENT'S CONSISTENT POLICY OVER THE YEARS OF SUPPORTING AND SUSTAINING GIBRALTAR IN THE FACE OF SPANISH RESTRICTIONS, THE ECONOMIC EFFECTS OF WHICH HAVE BEEN INTENSIFIED BY THE DISCRIMINATORY NATURE OF THE PARTIAL OPENING OF THE FRONTIER.

8. FURTHERMORE THE GOVERNMENT OF GIBRALTAR DO NOT ACCEPT THE LINKAGE WHICH THE MINISTRY OF DEFENCE HAS CHOSEN TO MAKE BETWEEN THE NEW AGREEMENT ON THE TRANSFER OF CROWN LANDS NO LONGER REQUIRED FOR DEFENCE PURPOSES AND COMMERCIALISATION OF THE DOCKYARD. THE NEED FOR THIS AGREEMENT, WHICH HAS BEEN AN ISSUE BETWEEN GIBRALTAR AND HER MAJESTY'S GOVERNMENT SINCE 1948, WAS AGAIN STRESSED IN HIS EXCELLENCY THE GOVERNOR'S DESPATCH OF MAY 1981. THIS ALSO WAS OVERTAKEN IN NOVEMBER 1981 BY THE DECISION TO CLOSE THE NAVAL DOCKYARD.

9. A SUBSTANTIAL MEASURE OF DIVERSIFICATION IS REQUIRED TO PROVIDE A WIDER BASE WITHIN THE ECONOMY TO WITHSTAND THE IMMEDIATE AND ONGOING EFFECT OF CLOSURE AND TO SECURE LONG-TERM VIABILITY. WITHOUT DIVERSIFICATION THE ECONOMY WILL SUFFER SIGNIFICANT DAMAGE.

10. THE KEY REQUIREMENT FOR DIVERSIFICATION IS THE AVAILABILITY OF LAND. THE ONLY SOURCE IS THE MINISTRY OF DEFENCE. THE GIBRALTAR GOVERNMENT HAVE BEGUN A LAND USE SURVEY WHICH WILL BE COMPLETED IN OCTOBER 1983. THEY HAVE ALREADY IDENTIFIED TWO PRIME DEVELOPMENT AREAS WHICH COULD PROVIDE OPPORTUNITIES FOR MAJOR DEVELOPMENT BY THE PRIVATE SECTOR. THESE ARE IN QUEENSWAY - FROM DOCKYARD NORTH GATE TO THE TECHNICAL COLLEGE - AND ROSIA - FROM NAPIER BATTERY ALONG THE LITTORAL TO ROSIA BAY AND TO THE WEST OF NUFFIELD POOL. AT PRESENT THESE ARE USED BY THE MINISTRY OF DEFENCE FOR STORES, SOCIAL AND SWIMMING CLUBS AND OFFICES AND INCORPORATE LARGE OPEN SPACES. THE GIBRALTAR GOVERNMENT CONSIDER IT ESSENTIAL THAT FINAL AGREEMENT ON THE LANDS TO BE TRANSFERRED FOR DEVELOPMENT PURPOSES SHOULD BE REACHED DURING THE TRANSITIONAL PERIOD BEFORE VESTING DAY, IE 1 JANUARY 1985 AS PROPOSED BY THEM:

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11. THEY ACCORDINGLY REQUEST:

(1) HER MAJESTY'S GOVERNMENT TO AGREE TO THE RELEASE OF THE AREAS REFERRED TO IN THE PRECEDING PARAGRAPH WITH A VIEW TO THE EARLIEST POSSIBLE DATE OF TRANSFER AND TO PRIVATE QUARTER SECTOR DEVELOPMENT BEGINNING BEFORE THE CLOSURE OF THE NAVAL DOCKYARD:

(2) THAT A CLEAR COMMITMENT BE GIVEN TO VERY EARLY DISCUSSION OF THE TRANSFER OF SUCH OTHER AREAS AS MAY BE REQUIRED TO ENABLE DIVERSIFICATION TO PROCEED IN PARALLEL WITH THE PROCESS OF COMMERCIALISATION AND THAT THESE DISCUSSIONS AND CONSEQUENT TRANSFERS BE COMPLETED BY 31 DECEMBER 1984.

GIBRALTAR MINISTERS ALSO REQUEST AN ASSURANCE THAT, GIVEN THE FRAGILITY OF THE GIBRALTAR ECONOMY, THE NECESSARY SUPPORT WILL BE FORTHCOMING IF VIABILITY OF THE COMMERCIAL SHIP REPAIR YARD WERE TO BE DELAYED BEYOND THE DATE AT PRESENT ENVISAGED.

12. GIBRALTAR MINISTERS ARE ANXIOUS THAT IT SHOULD BE UNDERSTOOD THAT, SHOULD THE PROPOSALS IN THIS PAPER BE AGREED TO, THEY FOR THEIR PART WOULD AGREE TO, AND AS NECESSARY PROMOTE AND JUSTIFY WITHIN GIBRALTAR, THE FOLLOWING SPECIFIC POINTS:

(1) THERE SHOULD BE NO BLURRED RESPONSIBILITY IN THE MANAGEMENT OF THE DOCKYARD, IE RESPONSIBILITY FOR MANAGEMENT AND OPERATION WOULD REMAIN WITH THE MINISTRY OF DEFENCE UP TO VESTING DAY AND WOULD THEREAFTER BE THE SOLE RESPONSIBILITY OF THE COMMERCIAL OPERATOR:

(2) AN UNEQUIVOCAL COMMITMENT BY THE GIBRALTAR GOVERNMENT TO COMMERCIALISATION BY 1 JANUARY 1985: AND

(3) THE NEED FOR ODA TO HAVE SATISFACTORY ASSURANCES THAT THE TRADE UNIONS WILL ACCEPT NEW WORKING PRACTICES LEADING TO A NEW LABOUR CHARTER BEFORE ODA FUNDS ARE COMMITTED TO INVESTMENT IN A NEW DOCKYARD.

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GIBRALTAR

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ECD (E)  
PLANNING STAFF  
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PS/LADY YOUNG  
PS/MR WHITNEY  
PS/PUS  
SIR J BULLARD  
MR JAMES  
MR CARLEDGE  
MR HANNAY  
MR WRIGHT

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PS/10. DOWNING STREET.

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FROM GIBRALTAR 121644Z JUL 83  
TO IMMEDIATE FCO TEL NO PERSONAL 91 OF 12 JUL 83  
INFO IMMEDIATE MOD FOR CFS AND DS12  
IMMEDIATE ODA

YOUR TELNO 34: GIBRALTAR DOCKYARD

1. FOLLOWING IS TEXT OF HASSAN'S LETTER TO ME OF TODAY COVERING THE GIBRALTAR GOVERNMENT'S RESPONSE TO PAPER IN YOUR TUR.

AS I TOLD YOU YESTERDAY, MY COLLEAGUES AND I HAVE BEEN DISCUSSING MOST CAREFULLY THE TERMS OF THE WORKING PAPER BY UK OFFICIALS WHICH WE RECEIVED ON SATURDAY. I NOW ENCLOSE A PAPER WHICH SETS OUT OUR CONSIDERED VIEWS. AS YOU WILL SEE, WE HAVE - ALTHOUGH WITH MUCH RELUCTANCE, BUT IN CONSIDERATION OF HMG'S OWN POSITION - REDUCED OUR REQUEST FOR A TWO-YEAR TRANSITIONAL PERIOD TO ONE OF ONE YEAR. THIS IS THE MINIMUM WHICH WE THINK WE CAN LIVE WITH.

2. TO ENABLE US TO ARRIVE AT THIS NEW POSITION IT HAS BEEN NECESSARY TO LAY MUCH GREATER STRESS ON THE NEED FOR EARLY, REAL AND SUBSTANTIAL PROGRESS ON AGREEMENT TO ACTUAL TRANSFER OF LAND SURPLUS TO MOD'S ESSENTIAL REQUIREMENTS.

3. AS THE PAPER STATES, WE ARE GRATEFUL TO THE PRIME MINISTER FOR THE SIX MONTHS' EXTENSION AND THE EXTRA £3M WORTH OF WORK WHICH SHE HAS OFFERED. I HOPE THAT THE FLEXIBILITY WE HAVE SHOWN IN MOVING FROM OUR OWN PREVIOUS POSITION WILL BE APPRECIATED AND THAT THERE WILL BE A SUITABLE RESPONSE TO IT. I WISH TO DRAW ATTENTION ALSO TO THE FIRM COMMITMENTS WHICH WE ARE PREPARED TO ENTER INTO AND WHICH ARE RECORDED IN THE PAPER.

4. I FIND IT NECESSARY TO STATE THAT IT WOULD NOT BE POSSIBLE, EITHER IN OUR OWN MINDS OR AGAINST THE BACKGROUND OF THE OPPOSITION WHICH WE ARE LIKELY TO ENCOUNTER IN THE HOUSE OF ASSEMBLY, EVEN TO THE TERMS WHICH WE NOW PROPOSE, FOR GIBRALTAR MINISTERS TO COMMIT THEMSELVES TO COMMERCIALISATION IF THEIR PRESENT POSITION WERE TO BE WEAKENED FURTHER

2. SEE MIFT.

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PS/LADY YOUNG  
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MR JAMES  
MR CARTLEDGE  
MR HANNAY  
MR WRIGHT

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(REPEATED AS REQUESTED)

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PARLIAMENTARY UNDER-SECRETARY OF STATE  
~~FOR DEFENCE FOR THE ROYAL AIR FORCE~~  
for Defence Procurement

A.S.C. 12/7

h.a.

APS/Secretary of State

Copy to: PS/Minister(AF)      Head of DS12  
          PS/Minister(DP)      Head of CFS Coord (N)  
          PS/US of S(AF)      Head of Defence Lands  
          AUS(PL)              Head of Southern European Dept, FCO  
          AUS(FS)              Head of MNED, ODA  
          AUS(D STAFF)

US OF S(DP) VISIT TO GIBRALTAR 5/6 JULY 1983

I attach a record of the main meeting between US of S(DP) and the Government of Gibraltar during Mr Stewart's visit last week.

2. I am also sending copies of this to the Private Secretaries of the members of OD.

12 July 1983

I R LEE  
, PS/US of S(DP)

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USofS(DP) 8/9

NOTE OF A MEETING BETWEEN THE PARLIAMENTARY UNDER-SECRETARY OF STATE FOR DEFENCE PROCUREMENT, MR IAN STEWART MP AND THE COUNCIL OF MINISTERS OF THE GOVERNMENT OF GIBRALTAR

Place: GOVERNMENT SECRETARIAT BUILDING, GIBRALTAR

Time: 1515 hours 5 JULY 1983

Those present:

UK

Ian Stewart MP - US of S(DP)  
 D C Wilson Esq - Head of SED, FCO  
 T Cox Esq - Head of MNED, ODA  
 J E White Esq - Head of CFS Coord(N), MOD  
 I R Lee Esq - PS/US of S(DP)

Government of Gibraltar

Sir Joshua Hassan - Chief Minister  
 The Hon A J Canepa - Minister for Economic Development & Trade  
 The Hon R G Wallace - Financial and Development Secretary  
 The Hon M K Featherstone - Minister for Public Works with responsibility for traffic  
 The Hon H J Zammit - Minister for Tourism & Sport with responsibility for Postal Services  
 The Hon Major F J Dellipiani ED - Minister for Housing, Labour and Social Security  
 The Hon Dr R G Valarino - Minister for Municipal Services  
 The Hon J B Perez - Minister for Education and Health  
 Mr J L Pitaluga OBE - Administrative Secretary  
 Mr E Montado - Economic Adviser

1. Opening the meeting, the Chief Minister welcomed Mr Stewart to Gibraltar and briefly mentioned the background of his own talks in London and the Prime Minister's subsequent message and offer to send Mr Stewart to Gibraltar. The Chief Minister stressed that he saw the purpose of the meeting and Mr Stewart's visit as one of clarification: no one should be able to say that there had been lack of will on either side to understand the issues and the other's position.
2. In response, Mr Stewart thanked the Chief Minister for his welcome and said he was glad to be back in Gibraltar, where he had not been since National Service. Mr Stewart referred to the moves that HMG had made to respond to the Gibraltar Government's concerns, particularly in the further six months deferment of closure of the naval dockyard that had been offered by the Prime Minister in London. He agreed that there were still areas to clarify and stressed

that the overriding concern was to find the best solution for the future of Gibraltar. Britain's commitment to Gibraltar was not in doubt. The British Government wished to work together with the Gibraltar Government to help it overcome the problems it had had in the recent past. He would comment on matters relating to the dockyard but would first listen to the Council of Ministers.

3. The Council of Ministers then spoke in turn.

4. The Financial and Development Secretary, Mr Wallace read a prepared note, a copy of which is attached. The Chief Minister reinforced the points on border restrictions and how they worked to the detriment of the Gibraltar economy. Gibraltarians could go and spend freely in Spain but Spaniards could not spend freely in Gibraltar.

5. The Minister for Public Works, Mr Featherstone, said that commercialisation of the dockyard was not completely unattractive but that now, with a world recession, was bad timing. The Peida Report had envisaged five years of support for a new dockyard from naval/Royal Fleet Auxiliary (RFA) work at a total cost of £29 million. The current offer was close to this in money terms but not in timescale. He did not believe a clean break between naval and commercial operation was necessary. A transitional period would ease the problems.

6. In discussion it was established that the 5-year period referred to stemmed from the original Peida Report and that this did not figure in the Appledore proposals.

7. The Minister for Tourism and Sport, Mr Zammitt, said that he too favoured a transitional period as opposed to a clean break. During the transition Gibraltar wished to stimulate private sector investment and tourism. The Chief Minister intervened to explain how the border restrictions impeded progress in this area. British tourists on the Costa del Sol were not permitted to enter Gibraltar on day trips. If border restrictions were lifted banks would also be interested in the tax advantages of locating in Gibraltar.

8. Resuming, Mr Zammitt said that he felt the proposals the Chief Minister had brought to London were reasonable. The London talks had concentrated too much on the dockyard and not on the overall economic outlook.

9. Mr Stewart responded to this by saying that HMG had certainly not intended to give this impression. They were keenly aware of the wider issues. The British Government supported the commercialisation proposals because they offered the best prospect of playing a central role in Gibraltar's future economy. The support that was being offered to get the commercial dockyard going should not be underestimated. Both in terms of money and in lands and assets it was a very substantial package. The other offers of aid to Gibraltar had been made against the background of a closed border. Our commitment in this context could not be unconditional



since if the border were to open a completely new set of circumstances would obtain. If the border were opened after commercialisation, however, the commitment to commercialisation would remain: the border opening would be an added bonus.

10. Mr Stewart said that there appeared to be among the Council of Ministers an impression that on closure of the naval dockyard there would be a lacuna. We did not expect that. Work would be spread as flexibly as we could manage it and the yard should be able to start work on RFAs immediately.

11. The meeting then discussed the subject of the transitional period. The Chief Minister said that the offer of 6 months deferment was not precisely related to the two-year transitional period they sought. They were not seeking simple deferment but a genuine mechanism for transition. Mr Cox of ODA said that in a sense the transition had already started and could accelerate as soon as the Government of Gibraltar was content to proceed and A&P Appledore (APA) got the agreement they sought on improved working practices. The Chief Minister supported by the Minister for Economic Development and Trade explained that APA were not waiting for a sign from them; they were waiting for progress with the unions. But the Gibraltar Government could not 'deliver' the unions. Mr Cox acknowledged this but suggested that endorsement of the commercialisation proposals by the Gibraltar Government would do much to defuse union objections.

12. The Minister for Housing, Labour and Social Security, the Hon Major F J Dellipiani, then delivered what can only be described as a long tirade. He rejected the comparison of Gibraltar with Chatham. The scale of problem in Gibraltar was totally different. There was nowhere else for the workforce to go and they did not receive the same level of unemployment benefit. The dockyard had been running down for 30 years as part of a deliberate policy. The only way to convince the rank and file of the workforce that commercialisation was viable would be to offer a two-year transitional period. He repeated the point that the world recession made this an inauspicious time to be setting up a new commercial dockyard.

13. The Minister for Municipal Services, Dr Valarino, agreed that a two-year transition was the key to gaining the workforce's acceptance of the plan. He was also concerned at the broader economic outlook and asked what would happen if the support on offer was not enough. If the £28 million capital investment and working capital package proved to be insufficient, where would extra money come from? Mr Stewart replied that this figure had been arrived at after much study. There was no reason to doubt it. On operating losses, one should remember that the £28 million had been framed on a basis of assured workload that was lower than what was now on offer. Initial losses should therefore be lower than had been allowed for.

14. The Minister for Education and Health, Mr Perez, spoke next. He was not convinced that commercialisation was viable and did not believe that the offer to consult the Gibraltar Government contained in the 1981 Defence White Paper (Cmnd 8288) had been fulfilled. He also believed that a two-year period was necessary during which to diversify the Gibraltar economy.

15. The Minister for Economic Development and Trade then summed up the remarks of his colleagues and repeated the comment that too much time had been spent talking specifically about the dockyard. They recognised that the British Government saw its offer as generous. They felt strongly however that they needed two years for a dignified transition of the dockyard to commercial operation and for diversification of the economy.

16. The meeting next discussed the position of the trade unions and the importance the two-year transitional period would have for them. The Council of Ministers was agreed that Joe Bossano, the Socialist Leader and trade union leader was the key to union attitudes but they offered no solutions to the problem of the union's current unwillingness to talk with APA.

17. The Head of CFS Coord(N), MOD, pointed out that the cyclical nature of the ship repair industry might suggest that now was a good time to get into the game. The yard might then be in a position to respond an upturn early. He also stressed the generous nature of the redundancy terms.

18. Having listened to all the points that had been made by the Council of Ministers Mr Stewart then gave an account of the UK offer and how it was intended to meet the Gibraltarians' concerns. The first stage of the process was simply acceptance that the naval dockyard was to close and that commercialisation could go ahead. HMG was well aware of the wider economic questions and had made proposals on land, housing and so forth but it was the proposals on the dockyard itself and the dockyard's future viability that were central to the economy.

19. Mr Stewart covered the timing of handover, the package of support measures and the question of transition. On timing the earliest date was commercially the best. The promise of naval work made sense now but the same conditions might not exist in the future. HMG nevertheless recognised the Gibraltar Government's anxieties and the Prime Minister had therefore offered a further 6 months before closure (ie to 30 June 1984).

20. Mr Stewart referred to the measures listed in the Chief Minister's aide memoire. He said that HMG was anxious to move ahead on them rapidly and to help in every way possible. The offer of assistance from ODA did however depend on a satisfactory labour charter being agreed between the workforce and APA.

21. Mr Stewart then described the spread of work on RFAs and RMA vessels spreading to 1987. The substance of transition was already present in our offer though perhaps not described as such.

22. The Chief Minister asked why, if work was to be guaranteed on RFAs etc to a high proportion of available capacity, was it necessary for there to be large redundancies and for the commercial dockyard to start with only 300 men. The Financial and Development Secretary explained that it was a practical problem of retraining and of refurbishing No 1 dock. Output would be restricted during the first few months of operation. Mr Stewart pointed out that the figures for APA's staff requirements during the first year had been calculated before the latest HMG offer to increase work to a total of £14 million over three years and should therefore be treated with caution.
23. In answer to the question as to why the yard should not run on a naval yard if so high a proportion of its first couple of years' work was to be naval Mr Stewart explained that the assurance on RFA work was meant to demonstrate a commitment to the success of the commercial venture. MOD could be flexible on phasing to try to help APA.
24. The meeting concluded with an exchange of pleasantries at 1745 hours.

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## NOTE BY THE FINANCIAL AND DEVELOPMENT SECRETARY OF THE GIBRALTAR GOVERNMENT

### ECONOMIC CONSEQUENCES OF CLOSURE

The closure of the Dockyard, setting aside the obvious serious effect on income and employment, will result in a change in the structure of the economy of Gibraltar. It will become an economy subject to international market forces.

2. To be able to sustain these forces the economy must be soundly based. For this it requires a substantial measure of diversification. This requires time, land and money.

3. We need the time:-

a) to absorb the impact of closure and the build-up of commercial work. The impact will be:-

- i) a contraction in the economy of some 15% in GNP;
- ii) an increased level of unemployment which will cost the Budget some £4m (10%) a year in the formative years;
- iii) inability to borrow for at least 2 years until the project has proved itself. This will throw an immediate burden of £3m on the Consolidated Fund and cause a serious cash flow position for the Government in the first quarter of 1984. Further the Government would be unable to fund any capital works for at least 2 years;
- iv) an increased reluctance by the private sector to fund any new investment.

b) to counter the drain on the economy caused by the partial and discriminatory opening of the frontier. The cost of this to the economy is some £5m in GNP (7%) and:-

- loss of revenue £2m (5%)
- loss of jobs 300 (3%);

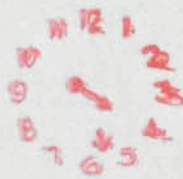
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c) in consultation with the Ministry of Defence to earmark development sites currently occupied for defence purposes which would be immediately attractive for development by private investment. This would need to be done within the agreed time scale for deferment of the closure of the Naval Dockyard.

4. The above emphasises the advice from the Financial and Economic Consultant to the project, who was retained by ODA on behalf of the Government, that the project is likely to require a further call on public funds which could amount to an additional £10m either in the form of capital or in naval work.

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10 DOWNING STREET

From the Private Secretary

12 July 1983

Dear Brian,

Gibraltar

The Prime Minister held a meeting here this morning to discuss the latest situation relating to our exchanges with the Government of Gibraltar about the future of the dockyard. I enclose a record of the discussion.

I am copying this letter and enclosure to Richard Mottram (Ministry of Defence) and John Gieve (Chief Secretary's Office).

Yours are

John Gieve.

Brian Fall, Esq.,  
Foreign and Commonwealth Office.

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RECORD OF A MEETING AT 10 DOWNING STREET AT 1015 ON TUESDAY 12 JULY 1983

Present: Prime Minister  
Foreign and Commonwealth Secretary  
Defence Secretary  
Chief Secretary  
Mr. Stewart  
Sir Antony Acland  
Mr. Wilson  
Mr. Coles

\* \* \* \* \*

Introducing the report in his minute of 7 July to the Prime Minister, Mr. Stewart said that his visit to Gibraltar had made it plain that, apart from the naval dockyard and other MOD installations, the Gibraltar economy was practically non-existent. The Chief Minister apart, the Council of Ministers were out of their depth when considering the future of the dockyard. The decision had more far-reaching implications than anything they had handled before and they were acutely nervous. He believed that Hassan had convinced himself of the necessity of going ahead with commercialisation but he had so far been unable to convince other Ministers. The Gibraltar Government felt that it must be able to sell whatever was agreed at the next elections which were due by Spring 1984. The Gibraltarians had committed themselves so firmly to the question of timing that we should almost certainly have to make a further concession.

The Foreign and Commonwealth Secretary said that we needed to be clear about where we were heading. Given the background of British dockyards we would not be investing in a commercial dockyard in Gibraltar unless this seemed to be the only possible solution. There must be a fear that the commercial dockyard would not be a success and that the Gibraltar Government would then come back to us for further aid. If we had made too many concessions at the present stage, this would not be helpful later.

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If Spain joined NATO, then base facilities would remain at Gibraltar. Furthermore, if the current frontier restrictions were removed, Gibraltar could benefit from becoming part of the touristic complex of Southern Spain. Part of our task was to persuade Gibraltar not to be hostile to such developments. We should not give the impression that we were taking on the Gibraltarians as permanent pensioners. It was therefore essential to get them to accept a firm commitment as to the date of commercialisation.

The Prime Minister said that it could be argued that Gibraltar had no economic prospects unless Spain permitted economic development. Even if we obliged Spain to lift the frontier restrictions as a condition of its entry into the European Community, the frontier could be closed again afterwards.

The Foreign and Commonwealth Secretary said that if Gibraltar developed into a dole economy, this would be much more expensive for us over time. And our position vis-a-vis Spain would be weaker. The Prime Minister observed that we did not wish to devote considerable resources to a commercial failure. Would it be better to wait and see how the accession negotiations progressed? Sir Antony Acland said that he did not believe that the Spaniards would close the frontier after accession. But they might erect bureaucratic obstacles to free movement. Nevertheless there were very real advantages for Spain in an open frontier. The area of Spain which joined Gibraltar was one of very high unemployment. Once the frontier was opened and Spain and Gibraltar were making money out of it, both would have a vested interest in the situation continuing.

The Defence Secretary said that he believed that the arguments favoured going ahead with commercialisation. If we had to continue to support the dockyard through providing naval work, it was better to do this through a commercial dockyard. Simply to continue with the existing situation would cost £42 million over the next three years. He had recently seen a representative of Appledore who was more bullish about the prospects than he had expected.

The real issue now was how we could get the Chief Minister

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to commit himself. There had been a suggestion in a telegram today that Hassan might reply to our recent memorandum by asking that the closure of the dockyard should be deferred until the end of 1984. One possibility was for us to make a counter-proposal of September, 1984.

Mr. Stewart said that to postpone the closure of the naval dockyard by another six months would cost an extra £6½ million.

Sir Antony Acland said that we should take into account the Gibraltarian psychology. They felt that they would always be cushioned by Britain and were afraid of new measures. The Chief Secretary said that we should not hand over the proposed aid of £28 million until there was clear agreement about the future.

Mr. Wilson said that Appledore representatives were in Gibraltar now. He believed that they were telling Hassan that there must be a clear break but that a six or nine month deferment of closure was acceptable from their point of view (and in the last resort they might accept twelve months).

Mr. Wilson said that he understood that the Chief Minister might send in the next 48 hours a reply to our latest memorandum. He might ask for a further six-month deferment of closure and an accelerated arrangement for the transfer of defence lands. The Defence Secretary said that we would do whatever was humanly possible to help on the latter point.

The Prime Minister said that we should await the next message from Hassan. If he proposed a further six-month deferment we should accept this but it would be essential to obtain a firm commitment from him that he would support commercialisation.

Mr. Stewart said that there were two further points. It would help Hassan if he felt that there would be a committed workload from July 1984 to June 1987. We could make it clear that while the value of the workload would not vary, we could discuss its spread. Secondly there might be some advantage in making available

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in advance of an agreement on labour practices a very small part, say up to £1 million, of the £28 million package to cover some preliminary work by Appledore. Hassan said that he needed extra time for preparatory work and this would be one way of helping him. The Chief Secretary commented that we should be sending the wrong signal if we agreed to hand over even a small amount before there was agreement on labour practices. The Prime Minister said that Departments should examine further the possibility of helping in this area. She also considered that we should examine the labour practices of those employees who would be retained in the naval dockyard.

The discussion ended at 1115.

A. J. C.

12 July 1983

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FM GIBRALTAR 111730Z JUL 83

TO IMMEDIATE FCO TEL NO PERSONAL 90 OF 11 JUL 83

INFO IMMEDIATE DESKBY 120800Z MODUK FOR CFS AND DS12

INFO IMMEDIATE DESKBY 120800Z ODA

YOUR TELNO PERSONAL 52: GIBRALTAR DOCKYARD

1. NASH AND CASEY ARE BOTH IN GIBRALTAR. WE HAVE KEPT IN CLOSE CONTACT WITH BOTH AND KNOW THAT CASEY'S ADVICE TO THE COUNCIL OF MINISTERS IS AS SET OUT IN PARA 3 OF YOUR TUR. NASH SAW HASSAN THIS AFTERNOON AND WE BELIEVE HE MADE SIMILAR POINTS. HE CONSIDERS HMG'S OFFER TO BE A GENEROUS ONE.

2. THERE HAS BEEN A NUMBER OF MEETINGS OVER THE LAST THREE DAYS AND CLEAR SIGNS OF TENSION WITHIN THE COUNCIL OF MINISTERS ARE APPARENT. IT MAY BE DIFFICULT FOR HASSAN TO HOLD HIS TEAM TOGETHER.

3. OUR INFORMATION IS THAT GIBRALTAR MINISTERS ARE LIKELY TO ASK FOR A DELAY OF SIX MONTHS BEYOND THAT PROPOSED BY HMG. THEY MAY PRESS FOR SPECIFIC AGREEMENTS ON THE HANDOVER OF CERTAIN LANDS WHICH THEY BELIEVE OFFER REAL PROSPECTS OF DIVERSIFICATION IN THE ECONOMY. THEY MAY ALSO REQUIRE COMPLETION OF LANDS SURVEY BY THE END OF JUNE 1984. WE BELIEVE THAT THEY WILL NOT, REPEAT NOT, BE SATISFIED WITH A GENERAL UNDERTAKING SUCH AS THAT CONTAINED IN PARA 4 OF YOUR TELNO 34

4. I INVITED HASSAN TO GIVE ME A PERSONAL APPRAISAL OF THE SITUATION IN THE LIGHT OF THE MEETING WITH THE PRIME MINISTER TOMORROW MORNING. HE FELT UNABLE TO DO SO AT THIS STAGE AS POLICY GUIDELINES HAD ONLY JUST BEEN AGREED AMONGST MINISTERS. HE EXPECTS TO BE ABLE TO DELIVER A MESSAGE IN REPLY TO THAT IN YOUR TELNO 34 TOMORROW AFTERNOON. HE ADDED 'THE MATTERS UNDER CONSIDERATION ARE OF VITAL IMPORTANCE AND COMPLEX AND I REGRET THAT I CANNOT BE MORE FORTHCOMING UNTIL I AM SATISFIED THAT OUR VIEWS ARE CAREFULLY AND ACCURATELY SET OUT'.

WILLIAMS

**GIBRALTAR**

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- PLANNING STAFF
- PS

- PS/LADY YOUNG
- PS/MR WHITNEY
- PS/FUS
- SIR J BULLARD
- MR JAMES
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- MR WRIGHT

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**GIBRALTAR**

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Treasury Chambers, Parliament Street, SW1P 3AG

Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

8 July 1983

Prime Minister

A.S.C. 1/2

Dear Mr Coles,

GIBRALTAR

The Chief Secretary has seen a copy of Mr Stewart's minute of 7 July to the Prime Minister about his visit to Gibraltar. He has asked me to say that before any decision is taken to make any further concessions it must be clear how much they will cost and how they will be accommodated within existing expenditure programmes.

I am copying this letter to the Private Secretaries of the recipients of Mr Stewart's minute.

Yours sincerely

JOHN GIEVE  
Private Secretary

- with AJC?

MO 5/16

Prime Minister

A.S.C. 1/7.

— PS/Prime Minister  
 PS/Foreign & Commonwealth Secretary  
 PS/Lady Young (Minister of State)  
 (FCO)

Head of DS12  
Head of CFS Co-ord(N)

GIBRALTAR: MEETING WITH PETER NASH OF A & P APPLIEDORE

Yesterday the Secretary of State asked Mr Peter Nash to a meeting to discuss the future of the Gibraltar Dockyard. US of S(DP) and Lady Young were both present.

2. The Secretary of State opened the meeting by referring to US of S(DP)'s recent visit to Gibraltar where he had explored further the Gibraltarians attitude to closure of the Dockyard. He felt it was time that APA were also given an opportunity to explain in more detail their thoughts on the way ahead. Mr Nash thanked the Secretary of State for calling the meeting. He believed that it would be best from APA's point of view if the December 1983 date were adhered to but he knew that political factors might militate against this and APA could, up to a point, accept some slippage. He felt that a six-month delay might be accommodated but anything beyond that would only increase the difficulties and risks of establishing a commercial enterprise. What APA needed most was a definite watershed - a date which was made public and from which there would be no movement. He believed that once such a date were agreed upon it would then be possible to get down to discussing the terms of new job offers and the changes needed in working practices. The Gibraltarians were only too keen to put off the evil day. They needed to be jolted from their current soft attitudes by being presented with hard choices of either accepting new ways of working or accepting unemployment. None of this could happen until a date for closure was fixed.

3. The Secretary of State said that Hassan was suggesting that APA were not really very concerned about delays in closure. Mr Nash explained that Hassan had been quoting him selectively. He re-emphasised that the longer the delay the less credible would be the enterprise and indeed any slippage would raise hopes that their might be another change of heart. US of S(DP) explained that Hassan had argued for



a gradualist approach when he had seen him recently in Gibraltar. Mr Nash commented that without a definite watershed there would not be enough pressure on individual workers to decide what they wanted.

4. Mr Nash was then asked how he planned the establishment of the new Dockyard. He explained that if the Dockyard were closed immediately he could have ships for commercial work there by December. Some of the workforce could be taken on by APA the day after being made redundant by MOD. The build up of personnel would begin right away. Conversion and modernisation of the yard could go ahead now provided the situation was such that the contractors were allowed in the dock. The Secretary of State commented that getting the modernisation work underway immediately might be a concrete sign of HMG's commitment and might therefore encourage the workforce into accepting agreement on closure. Lady Young however considered that the ODA would not wish to release funds until the workforce had accepted commercial working practices otherwise they might never do so. Mr Nash agreed that it was important to inject realism into the situation and this could not be done if the spoon-feeding from HMG continued for too long. The Secretary of State asked what changes were needed in the working practices before training and capital investment could go ahead. Mr Nash said that, for example, APA needed the workforce to move to a two shift a day system with flexibility between trades.

5. US of S(DP) finally enquired whether APA would be able to accept a year's slippage from December 1983. Again Mr Nash stressed that it would make the project more risky but he gave the impression that APA would, if pressed, accept that delay because they recognised the political difficulties involved. However, everything was dependent on agreeing a date and then sticking to it.

8th July 1983

*J. Ridley*  
(J E RIDLEY) (MISS)  
APS/S of S

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USofS(DP) 8/9

PARLIAMENTARY UNDER-SECRETARY OF STATE  
FOR DEFENCE FOR THE ROYAL AIR FORCE  
for Defence Procurement

Prime Minister  
Would you like to have  
another meeting to consider this  
report? A-Z C. P. 7

Yes please  
not

Prime Minister

1. During my visit to Gibraltar on 5-6th July I had a long meeting with the Chief Minister, Sir Joshua Hassan, and his Council of Ministers. I also had several shorter meetings and conversations with Hassan, both in company with the Governor and officials and also privately. In addition I met Peter Isola, the leader of the official opposition, and Joe Bossano, who is both the leader of the Gibraltar Socialist Party (its only representative in the Assembly) and the trade union leader in the Dockyard. I also had brief meetings with the three local Service commanders.
2. To judge the reactions of the Chief Minister and his colleagues to our proposals, they have to be seen in the local context. Gibraltar is essentially a garrison town. It has few resources of its own: no natural water supply, fresh food or raw materials. It is isolated from its surroundings because of border restrictions. The economy has been for many years almost entirely dependent on the Ministry of Defence, there being virtually no commerce or industry in the sense we would understand it. Tourism and related businesses such as shops, restaurants and hotels are severely limited at present by the border restrictions and the strength of the pound against the peseta. There is an acute contrast between the lack of space and inadequacies of housing in the town and the proportionately large areas under MOD ownership and occupation.
3. The Ministers are equivalent in UK terms to district councillors and apart from Hassan appear to be out of their depth with issues involving a fundamental reappraisal of their economy and way of life. Their current attitudes are motivated by both a fear of the unknown and a desire to put off the evil day in the hope that it may never actually come. They are all very doubtful whether commercialisation would really work. Individually the Ministers advance different arguments to justify delay but all reflect a general economic anxiety and the lack of experience of the realities of risk-taking and the commercial sector which results from the artificial nature of their economy. A general election has to be held by May 1984 and they are therefore seeking not only a practical agreement but also an election platform. All these factors have contributed to the proposal for a two-year deferment of dockyard closure and the Council of Ministers have rather boxed themselves in on this point.
4. Sir Joshua Hassan therefore finds himself in something of a dilemma. On the one hand he has had a long and distinguished pro-British career and does not want to break with us now. He would dearly like to settle the issue and is likely to retire or

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resign if he cannot. On the other hand he is anxious not to fight an election on an unconvincing dockyard package. A strong anti-commercialisation line would be advanced by Bossano, but whatever the outcome of the election he believes it would be more difficult to find solutions after it than before it. He therefore needs to achieve a set of proposals on which he can carry his Ministers now and outflank Bossano in the election.

5. Formally, the current position remains as stated in last week's exchanges. We are offering to hand over the dockyard free of charge, to provide £28 million through ODA to get it going on a commercial basis, to send Royal Fleet Auxiliaries for refit up to a value of £14 million over three years, to provide continuing work on RMAS vessels worth up to £1 million p.a., to give redundancy terms on a par with UK, to lease houses to the commercial operator, to achieve a new agreement on the transfer of defence lands and to delay closure of the naval dockyard for 6 months until the end of June 1984. As indicated by Hassan the Gibraltar Government reluctantly accepts the inevitability of closure of the naval dockyard; welcomes the assistance we are offering; but does not believe that necessary preparations for commercialisation - the change in working practices, the modernisation of equipment, and retraining - can be achieved by 30 June 1984. The heart of the problem is a difference of philosophy about the transition and in particular the change in working practices that is needed to give the commercial yard a chance. Whereas we believe that this change requires a commitment to an early and clearcut date of closure, they believe that the preparation and change of attitudes must be well under way before the changeover occurs.

6. This difference is fundamental and explains why the Chief Minister and his Government will not accept our current proposals. Against this background I therefore had a final private conversation with Sir Joshua shortly before leaving to see whether there was any flexibility on his side on the key question of timing. He hinted that there was, and this would be consistent with his reputation for compromise. He is in a difficult position, but I am sure he is very keen to find a way out.

7. I do not believe that to stick to our existing offer is a realistic option. It would precipitate a crisis in relations, with obvious political consequences here and a much reduced chance of finding an eventual solution to the Gibraltar problem. We cannot commercialise without the cooperation of the Government of Gibraltar and in consequence, assuming that we did not run on the naval dockyard indefinitely, might have to resort to budgetary aid and perhaps direct rule. Apart from being very unattractive in themselves, such arrangements would be extremely difficult to undo.

8. We will, I think, therefore have to be ready to revise our package towards Hassan's position. Such revision would probably have to include the offer of a longer delay in closure of the naval dockyard for, say, a further 6 months (i.e. to 31 December 1984), the release during this extended period of some small part of the £28 million from ODA in advance of an agreement on labour practices (at the risk of nugatory expenditure), and perhaps more rapid movement on the questions of defence lands and housing. I should stress



that I have not had time to consult Foreign Office Ministers on these ideas, nor do I think they would be easy for us to accept. But if running on the naval dockyard indefinitely is out of the question, as I think it must be for both practical and political reasons, the only course open to us to avoid breakdown is a further and final package that would probably have to be hammered out between yourself and Hassan in London as soon as possible.

9. I promised the Chief Minister that our officials (FCO) would prepare and send to him by the end of this week a full restatement of our position expressed in terms which recognise his concerns and respond wherever possible to the anxieties put to me by him and his Ministers in Gibraltar. He will work on it over the weekend and define the outstanding areas of difficulty for his Government. He would hope to revert to us early next week.

10. Finally, we should not overlook the implications if a commercial yard is established but does not become profitable before our commitment to future workload runs out in 1987. In the current state of the shipping industry the prospects must at best be regarded as uncertain. Michael Heseltine, Janet Young and I are due to meet Mr Peter Nash of A&P Appledore this afternoon to discuss their reactions to lengthening the timetable and the likely commercial consequences of delay.

11. I am copying this report to the members of OD, and also to John Stanley, David Trefgarne, Janet Young and Timothy Raison.

ls

7th July 1983

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TO IMMEDIATE GIBRALTAR  
TELEGRAM NUMBER 34 OF 8 JULY

*Am 12/7*  
*f.a.*

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 ESTABLISH-  
MENT 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 ESTABLISH-  
MENT 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

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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 CLOSURES 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

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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FROM GIBRALTAR 070815Z JULY 83 TEL NO 86 OF 7TH JULY 83  
TO PRIORITY FCO  
INFO PRIORITY MODUK  
PRIORITY ODA

MY TEL NO 85: VISIT OF MR STEWART

1. HASSAN, INTERVIEWED ON GBC TV LAST NIGHT, MADE A CAREFULLY PREPARED STATEMENT IN WHICH HE REFUSED TO MAKE PUBLIC DETAILS OF THE CONVERSATIONS WITH MR STEWART EMPHASISING INSTEAD THAT DISCUSSION CONTINUED. HE DID HOWEVER STATE THAT HE HAD FOUND MR STEWART'S VISIT MOST HELPFUL AND THAT THE EXCHANGES WITH THE MINISTER HAD BEEN AMONGST THE BEST THAT HE COULD REMEMBER. THEY HAD LED TO AN IMPORTANT CLARIFICATION OF THE POSITION OF BOTH SIDES

2. TODAY'S GIBRALTAR CHRONICLE CARRIES A FACTUAL ACCOUNT OF MR STEWART'S VISIT BASED ON THE STATEMENT IN MY TUR

WILLIAMS

THIS TELEGRAM  
WAS NOT  
ADVANCED

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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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10 DOWNING STREET

Prime Minister

Gibraltar

The Governor's initially brief optimistic report is not borne out by Hassan's reply to your message (bold attached).

2. Jan Stewart will be in Gibraltar tomorrow. I suggest we now wait to see how he gets on.

---

A.D.C.  $\frac{4}{7}$ .

NO. 10. DOWNING ST.

CONFIDENTIAL UK COMMS ONLY  
FM GIBRALTAR 041045Z JULY 83  
TO FLASH FCO TEL NO PERSONAL 01 OF 4 JULY  
INFO FLASH MODUK



YOUR TEL NO PERSONAL 49: PRIME MINISTER'S MESSAGE TO SIR JOSHUA HASSAN

1. FOLLOWING IS TEXT OF HASSAN'S REPLY TO PRIME MINISTER:

THANK YOU FOR YOUR MESSAGE. I AM GRATEFUL FOR THE CLOSE PERSONAL INTEREST YOU ARE TAKING IN THIS IMPORTANT MATTER AND FOR YOUR OFFER, WHICH WE WELCOME, TO SEND MR STEWART OUT TO GIBRALTAR. IN THE MEANTIME, I OFFER THE FOLLOWING COMMENTS ON A NUMBER OF POINTS ARISING FROM YOUR MESSAGE:

PARAGRAPH 2

IN OUR WRITTEN SUBMISSIONS AND AT OUR MEETINGS IN LONDON WE HAVE STRESSED THAT THIS IS NOT SIMPLY A QUESTION OF THE CLOSURE OF A DOCKYARD BUT ONE WHICH INVOLVES -

(A) THE PROBABLE EARLY AND TOTAL COLLAPSE OF A SMALL AND VULNERABLE ECONOMY, ALREADY UNDER PRESSURE, AND

(B) SERIOUS POLITICAL IMPLICATIONS, BOTH INTERNAL, BECAUSE OF THE POSSIBILITY OF DIRECT RULE, AND EXTERNAL, BECAUSE THE SPANISH GOVERNMENT WOULD BE ENCOURAGED TO DELAY FURTHER THE IMPLEMENTATION OF THE LISBON AGREEMENT AND TAKE POLITICAL ADVANTAGE OF A WEAKENED GIBRALTAR.

THESE VITAL CONSIDERATIONS, WHICH I WOULD LIKE TO STRESS, WITH ALL DUE RESPECT DO NOT APPEAR TO HAVE BEEN ACCORDED THE DUE WEIGHT THEY DESERVE, PUT THE SITUATION AT GIBRALTAR ON AN ENTIRELY DIFFERENT PLANE FROM THAT AT CHATHAM AND OTHER PLACES IN BRITAIN.

GIBRALTAR DOES NOT ASK TO BE IMMUNE. WE HAVE SPECIFICALLY ACKNOWLEDGED THAT WE MUST HAVE OUR SHARE OF BRITAIN'S DIFFICULTIES AND ACCEPT SUBSTANTIAL UNEMPLOYMENT (PARAGRAPHS 3(1) AND 6 OF THE MEMORANDUM I LEFT WITH YOU ON 30 JUNE). WHAT WE CANNOT AGREE TO IS TO PUT GIBRALTAR'S WHOLE ECONOMIC FUTURE AT RISK.

PARAGRAPH 4

THE GIBRALTAR GOVERNMENT HAVE ALREADY STATED CLEARLY THAT THEY ACCEPT THAT THE DOCKYARD MUST CLOSE (PARAGRAPH 2 OF MY MEMORANDUM). THEY ARE NOT ASKING FOR THAT DECISION TO BE CHANGED BUT, BECAUSE THEY BELIEVE THAT THIS HIGH RISK PROJECT WOULD IN PRESENT CIRCUMSTANCES PUT THE ECONOMY AT RISK AND ITSELF FAIL, MERELY THAT THERE SHOULD BE A PROPERLY PLANNED TRANSITION WITH AN AGREED DATE FOR CLOSURE. WE ARE GRATEFUL FOR THE EXTENSION OF SIX MONTHS WHICH YOU HAVE OFFERED BUT WE CONSIDER, ON ADVICE, THAT THIS IS REGRETTABLY NOT ENOUGH.

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PARAGRAPH 5

PARAGRAPH 5

## CONFIDENTIAL

THE GIBRALTAR GOVERNMENT AGREE THAT A COMMERCIAL OPERATION IS THE ONLY PRACTICAL ALTERNATIVE BUT THEY CANNOT AGREE TO ASK FOR THIS IN THE MANNER AND TIME-SCALE PROPOSED. THE BRITISH GOVERNMENT THEMSELVES HAVE NOT EXPRESSED ANY CONFIDENCE THAT THE PROJECT WOULD SUCCEED NOR WOULD THEY BE PREPARED TO ASSIST THE PROJECT BEYOND A SET DATE. WHAT THEY HAVE STATED IS THAT, IF APPLIEDORE'S FORECAST OF FINANCIAL VIABILITY IS NOT MET, ANY FURTHER REQUEST FOR HELP MIGHT INVOLVE RECOURSE TO BUDGETARY AID.

PARAGRAPH 6

THE CONSULTANTS APPOINTED BY THE ODA AND THE GIBRALTAR GOVERNMENTS OWN INDEPENDENT ADVISERS HAVE CAST SERIOUS DOUBTS ON THE FORECASTS MADE BY APPLIEDORE WHO HAVE NO STAKE IN THE PROJECT. WE ARE NEVERTHELESS PREPARED TO ADOPT COMMERCIALISATION BUT NOT IN A MANNER WHICH, WE ARE CONVINCED, WOULD JEOPARDISE THE ECONOMY AND RESULT IN FAILURE.

PARAGRAPH 8

THE SURVEY OF LAND USE AND THE MOD REVIEW WOULD TAKE TIME AND ANY CONSEQUENT COMMERCIAL DEVELOPMENT WHICH MIGHT ASSIST THE ECONOMY WOULD BE LONG TERM. SOME PROGRESS COULD HOWEVER BE MADE DURING THE TRANSITIONAL PERIOD PROPOSED.

PARAGRAPH 9(1)

THE GIBRALTAR GOVERNMENT AGREE THAT THERE CAN BE NO ASSURANCE THAT THE PROSPECTS FOR A COMMERCIAL OPERATION WOULD BE ANY DIFFERENT AT THE END OF TWO YEARS BUT THEY DO CONSIDER ON ADVICE AND ON THEIR OWN ASSESSMENT, THAT THE PROSPECTS SHOULD BE GREATLY IMPROVED IF THE REQUIREMENTS SET OUT IN PARA 3 OF MY MEMORANDUM ARE MET BEFORE THE VENTURE IS LAUNCHED. NOBODY DISPUTES THESE REQUIREMENTS YET THE GIBRALTAR GOVERNMENT ARE BEING URGED TO RISK GIBRALTAR'S WHOLE ECONOMY BEFORE THEY CAN POSSIBLY BE MET.

PARAGRAPH 9(2)

IN SO FAR AS APPLIEDORE ARE CONCERNED, THEY HAVE INFORMED ME, ALBEIT WITH SOME NATURAL RESERVATIONS, THAT 'IN ASSESSING THE EFFECT OF ANY SIGNIFICANT DELAY WE WOULD BE FLEXIBLE AND SEE WHERE WE COULD HELP' AND 'OUR INTERESTS COINCIDE DIRECTLY WITH THOSE OF YOUR GOVERNMENT AND THEY REMAIN THE SAME - TO SEE A COMMERCIAL SHIP REPAIR YARD IN GIBRALTAR'. THE GIBRALTAR GOVERNMENT HAVE NO DOUBT THAT SUITABLE ARRANGEMENTS COULD BE WORKED OUT WITH APPLIEDORE IN A SPIRIT OF COOPERATION AND MUTUAL INTEREST DURING A TRANSITIONAL PERIOD.

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PARAGRAPH 9(3)

AS TO A HYBRID ORGANISATION, I FORWARD WITH THIS MESSAGE, FOR EASE OF REFERENCE, AN EXTRACT FROM A CONSULTANTS REPORT (PEIDA) WHICH OUTLINES THE MANNER IN WHICH THE COMMERCIAL OPERATORS WOULD WORK SIDE BY SIDE WITH MOD MANAGEMENT. I HAVE NO DOUBT THAT, WITH GOOD WILL, A SATISFACTORY WORKING ARRANGEMENT WOULD BE ACHIEVED.

PARAGRAPH 9(4)

I HAVE ALREADY EXPRESSED, IN PARAGRAPHS 3 AND 4 OF MY MEMORANDUM, OUR CONVICTION THAT ONLY WHEN THE NECESSARY SKILLS AND EQUIPMENT ARE AVAILABLE WILL A COMMERCIAL DOCKYARD STAND ANY CHANCE OF SUCCESS. WE CANNOT UNDERSTAND HOW IT COULD BE OTHERWISE.

2. I HAVE REPORTED TO MY COLLEAGUES ON OUR MEETINGS IN LONDON AND WE HAVE HELD LENGTHY DISCUSSIONS SINCE MY RETURN. WE HAVE GIVEN THE MOST CAREFUL THOUGHT TO ALL THE POINTS IN YOUR MESSAGE BUT CANNOT IN CONSCIENCE AGREE TO PUT THE WHOLE OF GIBRALTAR'S ECONOMY AT RISK. AT THE SAME TIME, WE REITERATE OUR READINESS TO ENTER POSITIVELY AND IMMEDIATELY INTO A SENSIBLE COMMITMENT IF WE ARE GIVEN A REASONABLE CHANCE TO MAKE IT SUCCEED EVEN THOUGH THE GENERAL ECONOMIC EFFECTS AND UNEMPLOYMENT IN PARTICULAR WOULD STILL BE SEVERE.

3. WE EARNESTLY URGE AND REQUEST YOU TO RECONSIDER OUR PLEA, BEARING IN MIND IN PARTICULAR THE POLITICAL IMPLICATIONS AND THE OVERALL EFFECTS ON THE ECONOMY AS A WHOLE TO WHICH I HAVE DRAWN ATTENTION.

ANNEX ALFA

THROUGHOUT THE PERIOD UP TO HANDOVER, RESPONSIBILITY FOR THE MANAGEMENT OF THE DOCKYARD SHOULD REMAIN WITH MOD:

APA SHOULD BE APPOINTED AS MANAGERS DESIGNATE AND PROJECT MANAGERS/CONSULTANTS FOR THE COMMERCIAL OPERATION: AND,

WITH MOD RESPONSIBLE, APA WOULD CARRY THROUGH THE FOLLOWING FUNCTIONS:

- ESTABLISH AN APPROPRIATE LOCAL MARKETING ORGANISATION:
- THE PLANNING AND SUPERVISION OF THE REFURBISHMENT OF THE DOCKYARD TO PREPARE IT FOR COMMERCIAL OPERATION:
- ACT AS CONSULTANTS TO MOD FOR THE IMPLEMENTATION OF CHANGES IN MANAGEMENT, FINANCIAL AND PRODUCTION PRACTICES NECESSARY TO PREPARE THE DOCKYARD FOR COMMERCIALISATION:
- MANAGE SOME INITIAL COMMERCIAL WORK, ON BEHALF OF MOD, INCLUDING COMMERCIAL ASPECTS OF THE BUSINESS SUCH AS ESTIMATION AND BILLING AND THE COORDINATION OF PRODUCTION:

# CONFIDENTIAL

- COMMENCE THE TRAINING PROGRAMMES REQUIRED FOR COMMERCIALISATION:
- REVISE MATERIAL M PROVISIONING AND ACCOUNTING PROCEDURES:
- NEGOTIATE NEW CONDITIONS OF EMPLOYMENT TO TAKE EFFECT ON HAND OVER FROM MOD: AND,
- ESTABLISH AN APPROPRIATE MANAGEMENT STRUCTURE TO TAKE EFFECT ON HANDOVER FROM MOD

THESE TRANSITIONAL ARRANGEMENT WOULD REQUIRE THAT NAVAL WORK SHOULD CONTINUE TO BE PLACED IN GIBRALTAR OVER A PERIOD LONGER THAN THAT ENVISAGED BY HMG AND WOULD CREATE FURTHER EXPENSE IN THAT THE COSTS OF THIS EXTENDED PROJECT PERIOD WOULD NEED TO BE MET BY HMG. NEVERTHE LESS, SUCH TRANSITIONAL ARRANGEMENT WOULD ALLOW EASIER ACCEPTANCE OF THE PRINCIPLE OF COMMERCIALISATION, ALLOW THE PLANNING AND NEGOTIATION FO THE COMMERCIAL FUTURE IN A MORE FAVOURABLE ENVIRONMENT AND WOULD NOT COMPROMISE THE ESSENTIAL REQUIREMENTS FOR UNDERTAKING COMMERCIAL WORK.

BT

WILLIAMS

## GIBRALTAR

### LIMITED

SED  
DEF D  
NEWS D  
FUSD  
ECD (E)  
PLANNING STAFF  
PS

PS/LADY YOUNG  
PS/MR WHITNEY  
PS/FUS  
SIR J BULLARD  
MR JAMES  
MR CARTLEDGE  
MR HANNAY  
MR WRIGHT

### ADDITIONAL DISTRIBUTION GIBRALTAR

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1. I SPOKE TO HASSAN THIS EVENING FOLLOWING THE DELAYED MEETING OF THE COUNCIL OF MINISTERS. HE WELCOMED THE VISIT BY MR STEWART AND HOPED THAT THIS COULD TAKE PLACE ON TUESDAY/WEDNESDAY AS OPPOSED TO MONDAY/TUESDAY IN ORDER TO ALLOW HIM TO RESPOND TO THE PRIME MINISTER'S TELEGRAM (YOUR TEL NO PERSONAL 49). THIS MESSAGE IN REPLY SHOULD BE AVAILABLE FOR TRANSMISSION TOMORROW, 4 JULY. AS A RESULT OF TELEPHONE EXCHANGES WITH MOD I WAS ABLE TO SAY THAT I THOUGHT THIS TIMING WAS THE MORE ATTRACTIVE TO MR STEWART.

2. WALLACE HAS TOLD NEILSON IN CONFIDENCE (WHICH PLEASE PROTECT) THAT THE COUNCIL OF MINISTERS WERE STILL STRONGLY OPPOSED TO COMMERCIALISATION ON THE TERMS PRESENTLY OFFERED. HASSAN, HOWEVER, WAS IN BUOYANT MOOD WHICH LEADS ME TO THE CONCLUSION THAT THERE IS STILL ALL TO PLAY FOR.

3. HASSAN RECOGNISED THAT ISOLA AND BOSSANO MIGHT WELL WISH TO SEE MR STEWART BUT UNDERLINED THAT THE PACKAGE CURRENTLY ON OFFER WAS A MATTER BETWEEN THE GIBRALTAR AND BRITISH GOVERNMENTS AND SHOULD NOT BE DIVULGED TO OTHERS.

4. I SHALL WORK WITH HASSAN TOMORROW ON A PRESS LINE FOR MR STEWART'S VISIT BUT IT SEEMS CLEAR THAT THE MAJOR THEME SHOULD BE ONE OF THE CONTINUATION OF CONSULTATIONS LAST MARKED BY THE CHIEF MINISTER'S VISIT TO LONDON.

WILLIAMS

BT

NNNN

# CONFIDENTIAL

GPS 250.

CONFIDENTIAL

FM GOVERNOR GIBRALTAR TGM NO PERSONAL 78 OF 2 JUL 83  
TO FLASH FCO LONDON  
AND INFO FLASH MODUK

YOUR TELS NOS PERSONAL 48 AND 49: GIBRALTAR DOCKYARD.

1. I TOOK ACTION WITH HASSAN THIS MORNING.

2. HE WAS VISIBLY TOUCHED BY AND EXPRESSED THANKS FOR THE PERSONAL MESSAGE YOUR FIRST TUR. A MEETING OF COUNCIL OF MINISTERS WILL TAKE PLACE AT 1030 AM LOCAL TOMORROW AT WHICH HASSAN WILL INFORM HIS COLLEAGUES OF THE PRIME MINISTER'S MESSAGE AND THE SUGGESTED VISIT BY MR STEWART. HE PERSONALLY WELCOMES THE PROSPECT OF SUCH A VISIT AND SHARES MY VIEW THAT THE IMPETUS SHOULD BE MAINTAINED BY IT TAKING PLACE AT EARLIEST MOMENT. THE HOUSE WILL BE SITTING FOR MORMAL BUSINESS ON WEDNESDAY, THURSDAY AND PREHAPS FRIDAY OF NEXT WEEK AND I THEREFORE STRONGLY RECOMMEND THAT MR STEWART SHOULD, SUBJECT TO CONFIRMATION BY HASSAN AFTER TOMORROWS MEETING WITH MINISTERS, FLY TO GIBRALTAR ON MONDAY 4 TH JULY WITH A VIEW TO HOLDING MEETINGS THE FOLLOWING DAY. I ASSUME THAT MR STEWART WOULD BE WILLING TO RECEIVE ISOLA AS LEADER OF THE OPPOSITION BUT THAT HE WOULD NOT REPEAT NOT WITHOUT HASSAN'S APPROVAL REVEAL THE PRIME MINISTER'S PACKAGE WHICH IS A MATTER FOR GOVERNMENT.

3. HASSAN'S ATTITUDE THROUGHOUT OUR MEETING WAS CONSTRUCTIVE AND IT WAS EVIDENT THAT THE PRIME MINISTER'S COURTEOUS AND FULLY ARGUED MESSAGE HAD HAD A POSITIVE EFFECT ON HIM. I THEREFORE HAVE HOPES THAT IF HIS MINISTERS SHOW AN INCLINATION TO REJECT THE PACKAGE HE WILL REFUSE TO ALLOW THEM TO DO SO AT LEAST UNTIL MR STEWART HAS HAD AN OPPORTUNITY TO TALK TO THEM FURTHER.

BT

## GIBRALTAR

### LIMITED

SED  
DEF D  
NEWS D  
FUSD  
ECD (E)  
PLANNING STAFF  
PS

PS/LADY YOUNG  
PS/MR WHITNEY  
PS/FUS  
SIR J BULLARD  
MR JAMES  
MR. CARTLEDGE  
MR HANNAY  
MR WRIGHT

### ADDITIONAL DISTRIBUTION GIBRALTAR

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AJC M 1/2  
The PM agreed the message and I informed the FCO Resident Clerk at 11.00 pm.

Foreign and Commonwealth Office

London SW1A 2AH

1 July 1983

Prime Minister

Agree the attached telegram?

A.S.C. 1/2

M/K  
1/7/83

John Thur...

Gibraltar

/ As requested by the Prime Minister this morning, I am attaching the draft of a message from the Prime Minister to Sir Joshua Hassan, cleared in draft with the Ministry of Defence. I am also attaching the draft of a covering telegram to the Governor.

I understand that the Prime Minister's intention was that the letter should be telegraphed to Gibraltar tonight so that Sir Joshua Hassan will receive it before he and his Council of Ministers have made any final decisions about the package on the dockyard which was offered to them in London yesterday.

I am sending a copy of this letter to Richard Mottram (Ministry of Defence) and to Mike Power (ODA).

*Handwritten signature of R B Bone*

(R B Bone)  
Private Secretary

A J Coles Esq  
10 Downing Street

File No.....  
Department .....  
Drafted by .....  
(Block Capitals) .....  
Tel. Extn.....

OUTWARD  
TELEGRAM

Security Classification CONFIDENTIAL
Precedence IMMEDIATE
DESKBY 020700Z.....Z

FOR COMMS. DEPT. USE	Despatched (Date) ..... (Time) .....Z	POSTBY .....Z
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PREAMBLE

(Time of Origin) ..... Z (G.M.T.) (Restrictive Prefix).....  
 (Security Class.) .....CONFIDENTIAL..... (Caveat/  
 Privacy marking) .....  
 (Codeword) ..... (Deskby)..... Z  
 Q20700Z

TO ..... IMMEDIATE GOVERNOR GIBRALTAR ..... PERSONAL  
 (precedence) (post) Tel. No. .... of .....

AND TO (precedence/post) .....

AND SAVING TO .....

REPEATED TO (for info) .....

SAVING TO (for info) .....

Distribution:-

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Gibraltar Additional

[TEXT]

MY TELNO .....: GIBRALTAR DOCKYARD

1. MIFT contains the text of a message from the Prime Minister to Sir Joshua Hassan. Please pass it urgently.

2. In passing on the message you should emphasise that what the Prime Minister was prepared to offer yesterday by way of deferment to the closure date was, in large part, in recognition of the outstanding services Hassan has performed for close and friendly links between Gibraltar and Britain. The Prime Minister would not have been disposed to offer as much, and certainly not more, to another political leader.

Copies to:-

File No. ....

OUTWARD

Security Classification  
CONFIDENTIAL

Department .....

Drafted by .....

(Block Capitals) .....

TELEGRAM

Precedence  
IMMEDIATE

Tel. Extn. ....

DESKBY 020700Z .....Z

FOR  
COMMS. DEPT.  
USE

Despatched (Date) .....  
(Time) .....Z

POSTBY .....Z

PREAMBLE

(Time of Origin) ..... Z (G.M.T.)

(Restrictive Prefix) .....  
(Caveat/

(Security Class.) ..... CONFIDENTIAL

Privacy marking) .....

(Codeword) .....

(Deskby) ..... Z

TO ..... IMMEDIATE GOVERNOR, GIBRALRAP ..... PERSONAL of .....  
(precedence) (post)

AND TO (precedence/post) .....

AND SAVING TO .....

REPEATED TO (for info) .....

SAVING TO (for info) .....

Distribution:-  
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ADDITIONAL  
GIBRALTAR

[TEXT]

MIPT: GIBRALTAR DOCKYARD: PRIME MINISTER'S MESSAGE  
TO SIR JOSHUA HASSAN

[take in A - B]

Copies to:-

DSR 11 (Revised)

Message

DRAFT: ~~minutes/letter/indirect/dispatch/notes~~ xxxxx

TYPE: Draft/Final 1+

FROM:  
Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO: Sir Joshua Hassan

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

1. I have been thinking over~~y~~ very carefully our discussion yesterday about the Gibraltar Dockyard. I have also had a chance to study the memorandum you left with me.

CAVEAT.....

2. I fully realise the difficulties for you, and for the people of Gibraltar, of the decision to close the Royal Naval Dockyard. These problems are difficult for us all. Defence requirements have changed. In this country we have had to face the consequences with the closure of the Naval dockyard at Chatham and the running down of Portsmouth. Unemployment in Chatham is now almost 16%; when the dockyard finally closes it will be still higher since 7,000 jobs will have been lost. In other parts of the country, because of the economic recession, unemployment is considerably higher than this. These are uncomfortable realities which we all have to face in the present economic situation. Nobody can be immune.

Enclosures—flag(s).....

/3.

3. In Gibraltar we have been very anxious all along to make the best possible arrangements to deal with the consequences of closing the naval dockyard. I realise what an important part the naval dockyard has played in Gibraltar's history. The dockyard, and the work force there, have worked loyally for the Royal Navy. I know the steadfastness of your people; I do not forget the excellent work carried out by the dockyard work force on converting the SS Uganda during the Falklands crisis last year.

4. In facing the present realities we must work together and do our utmost to look after the interests of the people of Gibraltar. During our discussion we both agreed that, however unpalatable the fact is, the naval dockyard has to close. There can be no change in this decision. New defence requirements are such that the naval dockyard in Gibraltar no longer meets any real naval need. There is no point in attempting to shore up an organisation which no longer serves a useful purpose. What we must do is to create new opportunities.

5. I know you have your reservations about the project to set up a commercial dockyard. I can quite understand your hesitation, and that of the people of Gibraltar, when faced with something new and untried. But I am sure that a commercial operation is the only practical way of making full use of the assets of the old naval dockyard, the skills of the work force and the

/unrivalled

unrivalled geographical position of Gibraltar. There is no other project which would contribute as much to Gibraltar's economic well-being. If the conditions were right, you undertook to put the full weight of your Government behind the commercial venture, the modernisation of the dockyard and preparing the work-force for the new undertaking.

6. With the closure of the naval dockyard 900 people will be made redundant. If nothing replaces the naval yard unemployment could increase from its present level of 4% to about 15%. But I understand that, on present plans, A & P Appledore will re-employ 300 people when they take over commercial management, with a further 450 to be employed after four months. If the commercial operation goes well they hope to be employing nearly 1,300 people by 1987.

7. The arrangements we have offered to help in the establishment of a commercial dockyard are both practical and generous. They include:

- handing over to the Gibraltar Government the necessary dockyard lands and assets free of charge;
- provision of a total of £28 m. to re-equip the dockyard and get it off to a good start;

/provision



- provision of work on Royal Fleet Auxiliaries over a 3 year period to a value of £11 m, with additional naval work on smaller vessels worth some £1 m. per year.
  
- redundancy payments and pensions on the same generous lines as those given to Government employees in the UK. (Immediate cash payments will range from £1,200 to £12,000 with, in many cases, pensions being paid in addition).
  
- leasing by the Ministry of Defence to the commercial operator of houses and apartments for the use of their expatriate staff in order not to encroach upon Gibraltar's limited housing market.

8. In addition, we have said that the Ministry of Defence would be prepared to match a survey of land use by the Gibraltar Government with a review of the land and houses they need for defence purposes and to look at the possibility of releasing property not essential for defence. We have also offered a new agreement on the transfer of defence lands which has, I know, been a vexed issue for many years. We are already committed to spending £13 m. in development aid for Gibraltar's current development programme.

9. I believe that there are real opportunities here which should not be missed. When we met, you argued that closure of the naval dockyard should be delayed for two years and that there should be a transitional period to phase in commercial work. The more I have looked at this proposition, the more convinced I am that it would not be a sensible arrangement. There can be no assurance that, at the end of two years, the prospects for a commercial operation will be any different from now. We cannot even be sure that commercial management would wish to take up the project at that time. Equally, I am convinced that a hybrid organisation, which is part Ministry of Defence controlled and part a commercial operation, will not work. It emerged very clearly from our discussion that there must, at some stage, be a sharp break between the operation of the dockyard as a defence facility and its opening as a commercial activity. Only then will all those in the dockyard, both management and labour, be able to re-adapt to a commercial way of life and develop the skills necessary to achieve success in a competitive world.

10. As a result of our discussion I offered to defer closure of the naval dockyard by 6 months, to the end of June 1984. This would give a full year from now to prepare for the change-over. Such a deferment can be justified. But anything longer would, I am sure,

/be

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be against the interests both of Gibraltar and of the UK. The changeover to commercial working has to be made at some stage. The commercial advice I have is that delay will make the prospects worse, not better. I offered also that an additional £3 million of work be made available on Royal Fleet Auxiliaries during the initial three year period of the commercial dockyard, making £14 m. in all. If this offer is accepted, and its timing, the new commercial yard will start with an assured work programme. This will give it the best possible chance of establishing itself and contributing to Gibraltar's prosperity.

11. As I promised, I have been into this matter again very carefully with those of my colleagues most involved.

12. We all feel a deep sense of personal responsibility to the people of Gibraltar. The more we have gone through the arguments the more convinced we are that a very significant opportunity is now available. A new commercial dockyard, to which the British Government is anxious to give very substantial financial support in the formative years, will provide many new jobs and help the economy.

13. Delay only diminishes the prospects. I am so concerned that you and your colleagues should understand the scale of our promised commitment that I propose, if you agree, to send Ian Stewart out to Gibraltar next week to go over the ground and explain again our proposals in depth.

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SUBJECT

CONFIDENTIAL

*cc Master*

NOTE OF A MEETING HELD AT NO. 10 DOWNING STREET AT 1100 ON  
FRIDAY, 1 JULY

Present:

Prime Minister  
Foreign and Commonwealth Secretary  
Defence Secretary  
Mr. Ian Stewart, M.P.  
Sir Antony Acland  
Sir Julian Bullard  
Mr. Wilson  
Mr. Coles

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The Prime Minister described the outcome of her talk with the Chief Minister of Gibraltar on 30 June and said that, unless the present difficulties relating to the closure of the Gibraltar dockyard could be solved, we could face a serious political problem. Public opinion would tend to see Gibraltar, already in difficulty because of the Spanish attitude, as having been let down by Britain. There would be a connection in the public mind with the Falklands, partly because of the assistance provided by Gibraltar at the time of the Falklands campaign. She had been asked two Questions this week in the House about the situation.

Sir Joshua Hassan had handed her an aide memoire which stressed the loyalty of the people of Gibraltar to Britain and NATO and had emphasised that the Gibraltar government would put its full weight behind the proposals for commercialisation of the dockyard if the conditions he had stipulated, including a two year deferment of closure of the present dockyard, were met. She had urged Sir Joshua Hassan to reconsider his position in the light of her offer to defer closure by six months and to increase the amount of naval work which would be made available to a commercial dockyard.

/The Foreign and Commonwealth

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CONFIDENTIAL

-2-

The Foreign and Commonwealth Secretary agreed that, if the present problems were not solved, there could be considerable political difficulties. The Times had published a leader on 29 June which had tended to endorse Sir Joshua Hassan's approach. The Labour Party would link difficulties over Gibraltar with the Falklands. It seemed unlikely that Sir Joshua Hassan would accept a deferment of closure as short as six months. But the longer the period of deferment, the less likely it was that commercialisation would succeed.

Mr. Wilson said that he had discussed the problem on 30 June with the Chief Minister and the Governor, following Sir Joshua Hassan's talk with the Prime Minister. Sir Joshua had initially taken the view that six months was unacceptable and that he could accept nothing less than a two year deferment. But during the conversation his position had become much less firm. The Governor would be having further talks with him and would seek to persuade him that the present offer was a very good one.

The Prime Minister said that it was important that we should obtain Sir Joshua Hassan's support for commercialisation. It was possible that he would make a counter offer of a year's deferment.

Mr. Wilson said that he had explained to the Chief Minister that a six month deferment would mean that redundancy notices would have to be issued in December of this year. But it was open to Sir Joshua to call an election in October, i.e. before redundancy notices were issued. The March date for an election, which had been discussed earlier, was simply the last date by which an election must be held. Although Sir Joshua had said, at his meeting with the Prime Minister, that he might reply to our latest offer within 48 hours, he had later taken the line that this was a big decision and he would probably need a longer period before replying.

/The Defence Secretary

CONFIDENTIAL

CONFIDENTIAL

-3-

The Defence Secretary said that the crucial issue was how we could ensure the best possible arrangements for the future of the dockyard. There was no hope of it being commercially viable unless working attitudes changed. This, in turn, required severance. Our aim should be to try to persuade Sir Joshua Hassan that the terms we were now offering could easily be justified to the people of Gibraltar.

The Foreign and Commonwealth Secretary said that the agreement of Sir Joshua Hassan to commercialisation was extremely important. To delay closure by a few months would not be significant in that context. The Prime Minister commented that she doubted whether a six month deferment would be acceptable to Gibraltar. Sir Joshua Hassan might ask for closure to be deferred until the end of 1984. In the last resort she did not believe that we could reject such a proposition. The Defence Secretary said that he believed that Appledore could be persuaded to accept deferment. The financial implications were not particularly significant. We now needed a period for calm negotiation. Sir Joshua Hassan did not hold<sup>all</sup> the cards. He faced an election and wanted an acceptable arrangement.

Mr. Wilson commented that until two weeks ago Sir Joshua had been reasonably satisfied with the package. He had changed his position under pressure from the Council of Ministers but the Governor believed that he might settle for a six month deferment.

The Foreign and Commonwealth Secretary said that there was a case for sending a message to Sir Joshua now setting out our latest offer in writing. The Prime Minister said that such a message would have to be reasonably firm but should perhaps leave the door open for further discussion. It was important that the text should not be purely technical in nature. It should contain a passage responding to the statements in Sir Joshua Hassan's aide memoire about the loyalty of the people of Gibraltar to Britain, i.e. it must have an emotional content.

/There would also

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There would also be advantage in inserting a reference to unemployment in the British dockyards which were subject to closure.

The Defence Secretary urged that the message should also point out that any delay in commercialisation worked against the interests of Gibraltar. We should take the line that we would prefer to proceed to commercialisation as quickly as possible but that if the Gibraltar Government insisted on a six month deferment, then we would accept that. The point was that there was a private company ready to embark on commercialisation and possessing the prospect of a <sup>useful</sup> /amount of business. A six month deferment would be bound to have some effect on their attitude. The Prime Minister agreed that our message to the Chief Minister should imply that refusal to accept our offer would mean that an important opportunity had been missed.

Mr. Stewart stressed that if closure was deferred, the MOD could not contemplate running a hybrid operation in the dockyard. Essentially, we should have to maintain the existing operation but the threat of closure hanging over it would be demoralising. Thus, the chances of moving at the end of the period to a more vigorous commercial operation would be prejudiced. He had found that the Chief Minister was not at all clear as to what would happen in the dockyard during the period of deferment. In fact, there was no prospect of developing commercial work while the dockyard was being used for naval purposes.

In further discussion, it was agreed that it would be useful for the message to Sir Joshua Hassan to offer a visit to Gibraltar by Mr. Stewart, who would be able to illustrate the disadvantages if the current plans were disrupted. It was thought better that a British Minister should visit Gibraltar and in that way show our continuing concern for its interests than for the Chief Minister to be invited to pay another visit to London.

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The Foreign and Commonwealth Secretary said that the picture of imminent economic disaster which the Chief Minister had presented was a travesty of the real situation. At present 1,100 people worked in the dockyard. Appledore would re-employ 300 initially and expected to employ 600 or 700 at a later stage. A further 200 would secure employment in the naval base. So total redundancies were only likely to be of the order of 200.

In conclusion, the Prime Minister asked the Foreign and Commonwealth Secretary, in conjunction with the Defence Secretary, to prepare a message to Sir Joshua Hassan on the lines discussed, for despatch later in the day.

A.J.C.

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10 DOWNING STREET

*From the Private Secretary*

1 July, 1983

*Dear Roger,*

Gibraltar

The Prime Minister held an ad hoc Ministerial meeting here this morning to discuss Gibraltar in the light of her talk with the Chief Minister on 30 June. I enclose a note of the discussion.

I am copying this letter and enclosure to the Private Secretaries of members of OD and to Richard Hatfield.

*you see  
for file.*

R. B. Bone, Esq.,  
Foreign and Commonwealth Office

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PART 3 ends:-

CC (83) 21<sup>st</sup> - Item 2 39/6

PART 4 begins:-

ABC to FCO 1/7

