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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

Prime Minister

Yes please
not

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 RMAAS 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.

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7th July 1983



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?