

Ref: B06621

PRIME MINISTER

c Sir Robert Armstrong

Gibraltar: Dockyard and Aid  
(OD(82) 71)

## BACKGROUND

In November 1981 the Committee agreed that the Gibraltarians should be told that the naval dockyard would close, but that we should explore with them, without commitment, what alternative economic activities might be introduced, including possible commercialisation of the dockyard. The consultations should also cover the associated loan and aid issues.

2. The Government of Gibraltar have consistently opposed closure of the naval dockyard, and in consultations have taken the position that it is for the British Government to decide on the alternative economic activities to be introduced; their preference is for the naval dockyard to continue. But it is clear that they see commercialisation of the dockyard as the least unattractive option; a decision not to commercialise but to support Gibraltar's economy by grant-in-aid would probably result in the resignation of Gibraltar Ministers and the consequent need to impose direct rule by the Governor. A decision on the dockyard is required in the near future, both to dispel the uncertainty in Gibraltar and to allow initial steps to be taken to close the naval yard as planned during 1983.

3. The note by officials attached to OD(82) 71 does not make firm recommendations. Officials could not agree whether the large investment (at least £32 million) involved in commercialisation, with no guarantee that the enterprise would not require further subsidy, would be justified in order to avoid the political problems which would ensue if there were no commercialisation and the dockyard closed. Officials of the Overseas Development Administration, in particular, believe that when the border opens, the stimulus to Gibraltar's economy will be sufficient to offset almost completely the unemployment resulting from dockyard closure. In these circumstances, a commercialised dockyard operating at a loss (a real danger) would be an expensive liability. They believe Gibraltar's economy should be sustained by the much cheaper option of grant-in-aid at least until the border opens.

4. The Foreign and Commonwealth Secretary is likely to be briefed to support commercialisation as the only possible means of avoiding a major political and constitutional crisis in Gibraltar, notwithstanding the actual costs involved, the potential requirement for a continuing operating subsidy, and the risks of criticism from the United Kingdom's own shiprepairing industry. The Committee will also have discussed the situation in Gibraltar generally under Item 1 of the Agenda.

## HANDLING

5. You should invite the Foreign and Commonwealth Secretary to introduce the subject. It might be convenient to reach a conclusion on the question of commercialisation first, and then turn to the specific actions needed to implement a decision to commercialise. On commercialisation, points to establish in discussion are -

a. Is commercialisation in fact the only viable option? Is the alternative (and cheaper) option of a grant-in-aid to be ruled out on political grounds - including the risks to internal security in Gibraltar set out in the recent JIC report (JIC(82)(N) 105)?

Might dockyard closure without commercialisation be acceptable if there were a firm prospect of an early opening of the border and lifting of Spanish restrictions?

b. What are the intentions of the new Spanish Government?

Should these be probed further before a decision on commercialisation is taken, to establish whether an early opening of the border is likely? How long (if at all) could we afford to wait?

c. Given the possibility that a commercial dockyard might require continuing subsidy, and the substantial investment required to set it up, would it be cheaper to maintain the naval dockyard in being, at least until the border reopened? The Defence Secretary should be invited to comment on the implications, including the effect on employment in United Kingdom yards.

d. Is the Committee satisfied that the problems for British ship repair interests which a decision to commercialise the Gibraltar dockyard would involve would be containable? The Secretary of State for Industry should be invited to comment.

6. If the Committee decides on commercialisation, it might then turn to the specific actions involved in a decision to commercialise. Points to establish are -

a. Can we be confident that we should succeed in securing European Commission approval of British Government funding of commercialisation? The Secretary of State for Industry should be invited to comment.

b. How will the public expenditure aspects be handled? The Foreign and Commonwealth Secretary should be asked whether he is willing to meet the cost from within existing Aid Budget totals and the Chancellor of the Exchequer whether he is prepared to agree to provide additional funds.

c. Does the Committee agree with the recommendation that A and P Appledore are the preferred operator of the dockyard? What can be done to ensure that the dockyard is managed as a commercial operation without interference from the Gibraltar Government and Trade Unions?

7. If the Committee decides against commercialisation, or postpones a decision, the question of presentation to the Gibraltar Government arises. The Foreign and Commonwealth Secretary should be invited to comment on how this might best be handled.

#### CONCLUSIONS

8. Subject to the discussion, the Committee might be guided to agree that a decision should be taken in principle to support commercialisation of the dockyard, provided that the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer can reach agreement on its funding. The Committee might agree that a significant proportion of the costs should be found from within the existing Aid Budget (partly by postponing other aid projects for Gibraltar), the precise split between this and new money to be settled bilaterally. The Gibraltar Government should be informed in confidence and discussions opened to define the project. It should be the aim to limit the British Government's liability to the initial package of support, to secure arrangements giving incentives to the management and to prevent control of the yard from being subject to political or trade union considerations in Gibraltar: the operator must be free to engage only that amount of labour which he judges necessary to meet his initial market forecasts and not be expected to take over the existing workforce as it stands.

AM Goodall