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MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3 (Direct Dialling)

01-218 9000 (Switchboard)

MO 5/16

30th June 1983

~~Prime Minister~~  
A.J.C. <sup>20</sup>/<sub>6</sub>

Dear John

GIBRALTAR DOCKYARD

I understand that the Prime Minister requested a note on the Gibraltar Dockyard in preparation for her meeting this afternoon with Sir Joshua Hassan.

/ I attach a paper which covers the main issues. In particular you will wish to note that Annex C discusses the question of guaranteed work.

I am copying this and the attachment to John Holmes (FCO)

Yours ever  
*Jane Ridley*  
(J E RIDLEY) (MISS)

A J Coles Esq

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Gibraltar Dockyard: Closure/Commercialisation

Background

Introduction

1. The closure of the Royal Naval Dockyard Gibraltar by the end of 1983 was announced in November 1981. It was a consequence of the decision in the Defence Review to cut down on mid-life modernisation for surface warships. Closure should save the Defence Budget some £13M a year.

2. In November 1982 OD decided in principle to support the proposals from A & P Appledore to set up a commercial ship repair yard when the Naval dockyard closes. Support for commercialisation would include financial aid of some £28M from the ODA, together with a package of assistance from the MOD. The overall aid package, of which the Gibraltar Government is aware, is summarised at Annex A.

3. Since the proposed commercial yard will be owned by the GOG it is up to them to approve the proposal and ask ODA for funding. So far the GOG has not been prepared to give its support to commercialisation, but their position now is that they will accept commercialisation in two years' time. They argue that this long transition period will reduce the damaging economic effects of closure and allow a smooth transition to commercial ship repair rather than closure of the naval dockyard followed by the opening of a commercial successor. Sir J Hassan has indicated that he may resign if these demands are refused and closure goes ahead.

Deferment of Closure

4. The MOD view, supported by the FCO, is that a two year deferment is unacceptable. To offer such a delay now risks sending the wrong signals to Gibraltar by indicating lack of resolve to close. However, a 3 (or even 6) month delay could be accepted administratively by MOD on certain terms. A full programme of work for this extra period could be devised, given that the Home Dockyards cannot currently handle all the RFA work.

5. The terms would relate to implementation of rundown procedures. Up to now the Chief Minister has prevailed upon us not to implement the various steps relating to rundown and redundancies at the stages appropriate to an end 1983 closure date, arguing that such overt moves would prejudice an already extremely delicate situation. If we were to stick to an end 1983 closure, the period of notice would (because of the necessary preliminaries) be significantly less than the usual 6 months. Although it is management's right to pay in lieu of notice, such a truncation of the usual period would be regarded locally as provocative and would do nothing to help general MOD and PSA labour relations on the Rock. A delay would enable us to obtain a full 6 months' work from the work force, and should also give more time for the refurbishment of the dockyard which will be necessary before it can accept all commercial work. If we were now to agree to a short deferment of closure, we would need to avoid any risk of delay over redundancy notices arising again. We should therefore make it a clear condition (a) that a firm date for closure is announced and (b) that we would declare a state of redundancy seven months before the revised closure date, and issue individual notices six months before. (The effects of a short deferment are described in detail at Annex B).

6. However, a six month deferment would solve few problems for Sir Joshua since it would still require declaration of a state of redundancy at end November and the issue of notices at end December. The impact on the Gibraltar General Election would therefore remain, although it could be argued that the continued uncertainty is in itself a handicap to Sir Joshua.
7. Guaranteed Work. Rather than deferring closure another form of assistance which might be attractive to Sir Joshua Hassan would be an increase in the work at the dockyard guaranteed by MOD (see Annex C).
8. Other MOD Assistance is detailed at Annex D.

A & P Appledore's Views

9. The Governor of Gibraltar reports that Appledore are opposed to the 2 year delay sought by the GOG. However, they could accept a 3/4 month delay and indeed would see some advantages in it. But they remain adamant that an abrupt handover is desirable to change worker attitudes. They do not wish to see the gradual transition favoured by the Gibraltar Government

ANNEX A

SUPPORT MEASURES RELATING TO COMMERCIAL DOCKYARD IN GIBRALTAR

1. Provision, through ODA, of funds limited to a total of £28 million to support the setting up of a dockyard if the Gibraltar Government confirms 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 work force 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 3 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 leave 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. Expected to include resurfacing of Airfield and provision of new water supply.
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.

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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.

9. A new agreement on the transfer of defence lands.

DEFERMENT OF CLOSURE OF GIBRALTAR FROM  
31ST DECEMBER 1983 TO 30TH JUNE 1984

REDUNDANCY

Entitlement to Redundancy unaffected

1. A short deferment of closure, like six months, would still leave the Gibraltar workforce entitled to redundancy compensation as well as the chance of re-employment in a new commercial yard. (In other words they would not be deprived of redundancy payments as it is proposed Royal Ordnance Factory workers will be when the ROFs are privatised). What the situation on this would be in two years time could not be predicted with certainty.

Redundancy Terms for Gibraltar Workers as good as Chatham Workers

2. Those who 'opted in' to a special Gibraltar Pension Scheme (UKDGPS) receive immediate compensation and a pension and gratuity on reaching age 60. For example a craftsman with 10 years service would receive about £3,400 now and at age 60 a gratuity of £1900 plus pension of £630 pa, the latter both indexed. A similar man who 'opted out' would get nothing at 60 but a higher immediate payment of about £4,900. Non industrial workers would receive more than industrial workers. The highest cash in hand payment for a PTO IV - of whom there are 80 - would be about £14,000. 40 or so staff in higher grades would receive more than this.

COST OF SIX MONTH DEFERMENT OF CLOSURE

3. The total running costs of Gibraltar Dockyard including manpower, maintenance, power supplies, stores etc is £13M per annum. There would therefore be direct extra Dockyard costs of £6.5M in keeping it on for another six months.

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4. Assuming that the Dockyard labour force worked co-operatively at its present level of productivity on Royal Fleet Auxiliary Ships - the Dockyard's facilities are of course currently designed for the refit of warships rather than store ships - the value of the ships they would refit from 1st January 1984 to 30th June 1984 would be about £3M at estimated commercial contract prices. In this assumption the net cost of deferment of closure by six months would be some £3.5M. If this favourable condition of labour co-operation did not obtain as indeed it might not, in the circumstances envisaged, the cost could of course be as high as £6.5M. The Chatham men worked loyally after a state of redundancy had been declared. It remains to be seen what the position will be in Gibraltar.

5. By postponing the closure date a small number of the workforce will retire on normal age grounds, will not be replaced, and will marginally reduce the ultimate cost of redundancy. This factor is not however significant. (The once-for-all cost of redundancy whether in January or June 1984 is about £5M with small continuing payments in later years).

6. The extra cost would be £3.5M to £6.5M depending on the degree of labour co-operation.



MOD ASSISTANCE FOR COMMERCIALISATIONGuaranteed Work Programme

1. MOD has agreed that, if commercialisation goes ahead, a number of Royal Fleet Auxiliary refits will be allocated to the yard in its first 3 years. APA's initial proposal sought work worth £8M at 1983 prices. The independent consultants who initially assessed the proposal for the GOG considered the necessary load to be nearer £14M at the same price base. In the event we have reached agreement on the basis of a programme of 9 refits (4 in year 1, 3 in year 2 and 2 in year 3) which we consider represents a prospective income of some £8M, but have also agreed to increase the value of the package up to £11M, by allocating additional ships, should this prove necessary.
  
2. In addition, we have agreed that Royal Maritime Auxiliary Service (RMAS) vessels and other MOD craft based at Gibraltar should be refitted and repaired by the commercial operation. This continuing task represents a prospective average income of some £ $\frac{3}{4}$ M a year. Over 3 years this adds about £2 $\frac{1}{4}$ M to the RFA work package.
  
3. It would be possible to offer some additional RFA work over the next 3 years if this would help the Gibraltar Government accept commercialisation. The total value of RFA work offered could be raised to, perhaps, £14M. Beyond a certain point too great an injection of guaranteed naval work could discourage entrepreneurial zeal and hamper labour discipline. It would also somewhat increase

the unpopularity with the UK shiprepair industry of any allocation of contract work to Gibraltar; although it has been publicly stated that this is being contemplated, industry has so far been too preoccupied to register it and react. More work is unlikely to act as a big inducement to Hassan but it is one of his stated requests and could be made if it helped to secure his willingness to live with closure in June 1984.

4. It is difficult to represent the possible year by year spread of this work in terms of ships because the additional ships would have to include larger classes of RFA ships than the basic programme. In terms of spread of expenditure it could be on the following lines:

3 Year Contract Value	Year 1	Year 2	Year 3
£M	£M	£M	£M
8	3.5	2.5	2
11	4.5	3.5	3
14	5.5	4.5	4

On this basis at the highest workload level the yard would be almost completely full of naval work and little tapering is possible. Requests to extend the 3 year period of the guarantee would present a particular difficulty. The guarantee will only be presentable to British industry (and then with difficulty) if it can be assured that the guarantee is definitely limited in time and that afterwards Gibraltar would only win work on an open tender basis. The longer the period the harder to explain.

OTHER MOD ASSISTANCEDOCKYARD LAND AND ASSETS

1. Free transfer to the GOG of all surplus dockyard land and assets necessary for commercial operation is fundamental to the scheme. Under present rules the MOD is obliged to offer surplus land and buildings to the GOG. Natural land is transferred free, but a charge is made for reclaimed land and for buildings of continuing use to the GOG. The Dockyard is built on reclaimed land, so the offer of free transfer was a significant concession. In addition, MOD has agreed to the free transfer of a substantial amount of surplus equipment (ranging from workshop tools to dockside cranes) and the sale to the GOG on preferential terms of a range of non-surplus equipment.

2. In the course of negotiations MOD has gone out of its way to be helpful. This has extended to making significant concessions over the berthing arrangements for the Gibraltar Naval Base. We have also agreed to reprovide a number of buildings offered to the GOG.

Housing for A & P Appledore

3. Closure of the Naval Dockyard will release over 100 houses and apartments. It had been intended that these would be used to ease the hardship of servicemen and their families stationed on Gibraltar. The main aims were to phase out the use of mobile homes and sub-standard quarters, to reduce waiting lists and to establish military enclaves out of the town.

Lands Agreement

4. The main aspects of a new lands agreement have been agreed at official level and Gibraltar Ministers are understood to find it acceptable.

a. Surplus reclaimed land to be transferred free of charge: The term 'reclaimed land' include tunnels and galleries.

b. Surplus defence buildings for which the Gibraltar Government have a continuing use to be transferred free of charge if over 60 years of age. Buildings under 60 years of age to be paid for, the payment being calculated on the basis of capital replacement cost, depreciated according to their age at a fixed rate  $1\frac{2}{3}\%$  per annum. (The term 'buildings' to include pipelines and services, and installations and structures on the sea-bed or foreshore).

c. The Gibraltar Government would, as now, be the sole judge of whether buildings were of continuing value to them; and there would be no obligation on the Ministry of Defence to remove surplus defence buildings which were of no continuing value to the Gibraltar Government.

d. An Arbitrator would be appointed to resolve any disagreement of value under b. above.

e. The Gibraltar Government would, if it wished, be able to seek a certificate from the Secretary of State for Defence that a particular piece of land or a building was still required for defence purposes.

Sri Joshua

- 1) Commitment on Commercialisation  
Production in Warkforce. - time.
- 2) Modern: & reflected equipment-  
turning.
- 3) Transformed novel work.
- 4) Not Dec. 1983 - but 1985

Historic Agreement - Normality of  
franchise.

Nov. 1981

DRAFT MESSAGE FROM THE PRIME MINISTER TO SIR JOSHUA HASSAN

1. We discussed yesterday the problem of the Gibraltar dockyard. I realise how concerned you are about the implications for the Gibraltar economy of the decision to close the naval dockyard by the end of this year. Nevertheless, we both agree, however reluctantly, that, because of changed defence requirements, the naval dockyard will have to close. I believe we are also agreed that setting up a commercial operation in its place is the only realistic alternative, although you attach certain conditions to your acceptance of the point.

2. Our contribution to the launching of this new venture would be a very substantial package of support measures. My colleague gave you details during your discussions here. I am attaching a full list. They apply of course only if the naval dockyard is closed and a commercial yard set up on a time scale acceptable to us both. Your contribution would be to put the full weight of the Government behind the proposals to commercialise the dockyard; to persuade the work force and public opinion to accept these new arrangements; and to persuade the work force to accept working practices and manning levels necessary to compete in world markets and make the commercial dockyard a success.

3. You asked for a two year deferment to closure of the naval dockyard and a transitional period before the start of a fully commercial operation. Having listened carefully to your arguments yesterday, and since studied your memorandum, I must repeat what I said to you about a two year deferment being unacceptable. There could be no

take up the management of the yard after that period; there can be no guarantee that, after two years, conditions in the world ship repair market will be any different from now; and the two year period would simply defer the moment at which the dockyard work force has to adapt to the new environment. Nor do I believe that a transitional arrangement with some commercial <sup>repairs</sup> ~~work~~ being undertaken would work satisfactorily. There must be a clear break between naval and commercial management. Furthermore, we must face the fact that the naval dockyard is not required for that further period; dockyards elsewhere are also being closed.

4. As a result of our discussions, I was however prepared to offer you deferment of the closure of the naval dockyard for a maximum of six months, ie to 30 June 1984. In addition to the measures of support already outlined to you and attached to this letter, I was also prepared to offer some £3m of extra work for the new commercial yard on Royal Naval vessels. In making these offers I went as far as I could to meet your needs and take account of your problems. These (are offers) of course conditional on a satisfactory agreement on the setting up of a commercial operation and the announcement of a firm date for closure of the naval dockyard.

5. I believe that the combination of measures which we have now put forward offers a real opportunity for Gibraltar to create a viable alternative to the naval dockyard. No better alternatives are in prospect. I hope that you and your colleagues will now look seriously and positively at what is

on offer and let me have your response as soon as possible.



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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).

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9. A new agreement on the transfer of defence lands.

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## EXAMPLES

### Industrials

#### Example 1

Craftsman aged 45 with 10 years service who opted to remain in old (pre UKDGPS) gratuity scheme. Receives, on leaving, a gratuity of:

$$\begin{array}{r} 5 \times 1 \text{ weeks pay of } \pounds 97 = \pounds 485 \\ 5 \times 2 \text{ weeks pay of } \pounds 97 = \pounds 970 \\ \hline \pounds 1455 \end{array}$$

If leaving on redundancy, also receives compensation of:

$$\begin{array}{r} 5 \times 2 \text{ weeks pay of } \pounds 97 = \pounds 970 \\ 5 \times 3 \text{ weeks pay of } \pounds 97 = \pounds 1455 \\ 5 \times 2 \text{ weeks pay of } \pounds 97 = \pounds 970 \\ \text{(for service after 40th} \\ \text{birthday)} \\ \hline \pounds 3395 \end{array}$$

Total  $\pounds 4850$

#### Example 2

Craftsman aged 45 with 10 years service who joined the UKDGPS. Receives at age 60

$$\text{Annual pension of } 10 \times 1/80 \times (\pounds 97 \times 52) = \pounds 630$$

$$\text{Gratuity of } 10 \times 3/80 \times (\pounds 97 \times 52) = \pounds 1890$$

both will be adjusted for inflation when payment is due.

If leaving on redundancy, also receives compensation of  $\pounds 3395$  as in Example 1

#### Example 3

Band 2 Labourer aged 36 with 12 years service who opted to remain in old (pre UKDGPS) gratuity scheme. Receives, on leaving, a gratuity of:

$$\begin{array}{r} 5 \times 1 \text{ weeks pay of } \pounds 76 = \pounds 380 \\ 5 \times 2 \text{ weeks pay of } \pounds 76 = \pounds 760 \\ 2 \times 4 \text{ weeks pay of } \pounds 76 = \pounds 608 \\ \hline \pounds 1748 \end{array}$$

If leaving on redundancy, also receives compensation of:

$$\begin{array}{r} 5 \times 2 \text{ weeks pay of } \pounds 76 = \pounds 760 \\ 5 \times 3 \text{ weeks pay of } \pounds 76 = \pounds 1140 \\ 2 \times 4 \text{ weeks pay of } \pounds 76 = \pounds 608 \\ \hline \pounds 2508 \end{array}$$

Total  $\pounds 4256$

Example 4

Craft Operative aged 44 with 6 years service who joined the UKDCPS. Receives, on leaving, a short service gratuity of:

$$6 \times 3/80 \times (\pounds 92 \times 52) = \pounds 1076$$

If leaving on redundancy, also receives compensation of:

$$5 \times 2 \text{ weeks pay of } \pounds 92 = \pounds 920$$

$$1 \times 3 \text{ weeks pay of } \pounds 92 = \pounds 276$$

$$4 \times 2 \text{ weeks pay of } \pounds 92 = \pounds 736$$

$$\text{(for service after 40th birthday)} \quad \underline{\pounds 1932}$$

Total  $\pounds 3008$

Non-Industrials

Example 6

PTO IV aged 50 with 32 years service on maximum of pay scale ( $\pounds 7194\text{pc} - \pounds 137 \text{pw}$ ) who joined the UKDCPS. Receives at age 60:

$$\text{Annual pension of } 32 \times 1/80 \times \pounds 7194 = \pounds 2878$$

$$\text{Gratuity of } 32 \times 3/80 \times \pounds 7194 = \pounds 8634$$

both will be adjusted for inflation when payment is due.

If leaving on redundancy, also receives compensation of:

$$5 \times 2 \text{ weeks pay of } \pounds 137 = \pounds 1370$$

$$5 \times 3 \text{ weeks pay of } \pounds 137 = \pounds 2055$$

$$22 \text{ weeks pay of } \pounds 137 = \pounds 12056$$

$\underline{\pounds 15481}$

Maximum redundancy compensation payment is limited to 2 years pay therefore compensation will be  $\pounds 14,388$

Example 7

Clerical Assistant aged 22 with 4 years service who joined the UKDCPS. Receives, on leaving, a short service gratuity of:

$$4 \times 3/80 \times \pounds 78 \times 52 = \pounds 608$$

If leaving on redundancy, also receives compensation of:

$$4 \times 2 \text{ weeks pay of } \pounds 78 = \pounds 624$$

Total  $\pounds 1232$

NB. The above examples are based on current (July 1982) pay rates (to the nearest pound).