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**GIBRALTAR:
A SIEGE ECONOMY**

I. Steps to isolation

On April 10 1980 an Anglo-Spanish Statement was issued in Lisbon which began with the following declaration of intent: «1. The British and Spanish Governments, desiring to strengthen their bilateral relations and thus to contribute to European and Western solidarity, intend, in accordance with the relevant United Nations Resolutions, to resolve, in a spirit of friendship, the Gibraltar problem. 2. Both Governments have therefore agreed to start negotiations aimed at overcoming all the differences between them on Gibraltar». The Lisbon Statement, although itself soon to become the subject of disagreement, was the first sign of a break, at government level, in the stalemate over the status of the Rock, and was a recognition of pressures for change coming from both inside and outside the colony.

In the course of the 1950s and 1960s alterations were made in the constitution and administration of Gibraltar which were interpreted by Spain not only as reaffirmations of British disregard for Spanish claims but also as steps in a process which might end in the granting of self-government or independence to the Rock's inhabitants, i.e., the alienation of sove-

reignty over Gibraltar to a third party, contrary to Article X of the Treaty of Utrecht. From 1963 onwards Spain successfully enlisted the support of the United Nations in exerting pressure upon Great Britain to enter into negotiations on the return of sovereignty, but without practical results. Each rejection by the United Kingdom of Spanish proposals and United Nations recommendations and resolutions, and each British reassertion of the principle of self-determination for the Gibraltarians, was followed by an intensification by Spain of restrictions on direct communications between Gibraltar and its hinterland.

The process of isolation began in 1954 with the withdrawal of the Spanish consul from Gibraltar as a reaction against the visit of Queen Elizabeth and Prince Philip to the Rock at the end of their Commonwealth tour; Spaniards were prohibited from visiting Gibraltar unless they held work permits, and no further work permits were to be issued. In 1964, following Great Britain's rejection of the call by the United Nations Committee of Twentyfour to enter into negotiations on the decolonization of Gibraltar, Spain began a rigid enforcement of customs regulations and procedures at the land frontier. In 1965 the exit permits of the

2,062 Spanish women working in Gibraltar were withdrawn and the customs post at La Línea was downgraded, effectively cutting Gibraltar off from building and other materials. In 1967 Spain declared a Prohibited Flying Area for all aircraft around Algeciras, thus severely limiting the use of Gibraltar airfield, from which certain types of civilian aircraft henceforth had to take off without full payloads. The 1967 referendum in Gibraltar, in which 12,138 Gibraltarians voted to remain under British rule and only 44 expressed a wish for Spanish sovereignty, was followed in 1968 by the Spanish closure of the gate at La Línea to anyone not a permanent resident of Gibraltar or a Spanish worker with a valid pass. In December 1968 the General Assembly of the United Nations requested «the administering power to terminate the colonial situation in Gibraltar no later than 1 October 1969». Britain, however, proceeded to issue in May 1969 the Gibraltar Constitution Order-in-Council, which gave the Rock a new Assembly and Government with wide powers in domestic affairs. This prompted Spain finally to sever all direct links with the Rock by closing the border crossing at La Línea, terminating the Gibraltar-Algeciras ferry, cutting all telephone, telegraph and postal services, and withdrawing the remaining Spanish labour from Gibraltar.

For the following 13 years all physical contact across the land frontier ceased, apart from one or two exceptions on humanitarian grounds. Not until December 1982, soon after the socialist victory in Spain's October 1982 general elections, was the frontier between La Línea and Gibraltar partially reopened by the Spanish authorities. Spanish nationals and British passport holders resident in Gibraltar may now cross the border on foot; but customs restrictions are vigorously enforced by Spain, only pedestrian traffic is allowed, and no non-Spaniards or non-Gibraltarians are allowed to cross from Spain into Gibraltar, or vice versa.

The object of this study is to outline the effects of fifteen years of isolation upon the Gibraltarian economy and to speculate a little upon what the 1980s may bring in terms of a liberalization of relations between Gibraltar and Spain.

II. AN ECONOMY UNDER SIEGE

The closure of the frontier in 1969 completely metamorphosed the Gibraltarian economy, effectively converting the Rock into an island whose nearest neighbour is Morocco. With a civilian population of less than 30,000 on a territory of 5.82 square kilometres, of which one-third cannot be used, and a total number in paid employment of only 12,000, Gibraltar's economic opportunities are obviously limited. Monaco, Andorra, San Marino and Lichtenstein are no parallels: Gibraltar does not enjoy the goodwill from Spain upon which these states depend from their neighbours.

The Gibraltarian economy was formerly able to function prosperously only through an association, often illicit, with a hinterland embracing a large part of Lower Andalusia. Large-scale smuggling was largely concerned with tobacco: «... the annual imports of American tobacco by Gibraltar — with its population of 25,000 — are 5,048,767 dollars, whereas the whole of Spain, with 32 million inhabitants, imports no more than 4,779,227 dollars' worth, and Germany, with 52 million inhabitants, imports only 2,520,183 dollars' worth (*The Spanish Proposals on Gibraltar*, Madrid, 1966, pp. 50-51). The enforcement by Spain of strict customs control from 1964 onwards brought about a drop in Gibraltar's re-exports of tobacco and other manufactured goods from £ 3.1 million in 1964 to less than £ 1.60 million in 1965 and £ 0.5 million in 1966. Three-quarters of a million tourists, partly from cruise ships but mainly either excursionists from the adjacent Costa del Sol or people flying into Gibraltar on their way to Spain, used to spend some £ 3 million on the Rock; this source of revenue also rapidly dwindled.

The problem of the labour force

An early problem produced by the border restrictions was the loss of an experienced, hardworking, cheap and often exploited Spanish labour force. Having reached a peak of 13-15,000 during the Second World War, the workforce entering Gibraltar from the Campo de Gibraltar was down to 4,778 by 1969; nevertheless, with its final withdrawal, one-third

of Gibraltar's labour disappeared overnight. The dockyard lost almost 1,000 men and the building industry three-quarters of its manpower.

The gap has been filled, but not without effects on the economy generally. Some 3,000 Moroccans were quickly recruited; their number subsequently increased to nearly 5,000 but dropped again as Gibraltarians themselves took up employment in manual jobs or in work previously undertaken by cheaper Spanish labour. The 2,663 Moroccans in Gibraltar at the end of 1980 represented almost a quarter of the total labour force and were largely employed in unskilled jobs in the docks, the building industry and the private sector. Although not as qualified as the workers from the Campo whom they have replaced, the Moroccans receive the same wages as Gibraltarian employees; and despite the provision of training facilities there have been deleterious effects on the quality of workmanship and service. A further cost is the need to house this non-Gibraltarian labour, which unlike that from Spain cannot return home at night.

Gibraltarians themselves have had to come to terms with the idea that not only white-collar work is acceptable and have turned their hands to jobs formerly left to imported labour. More women have been incorporated into the workforce, and by taking two jobs or working longer hours higher incomes per head have been achieved. Gibraltarian income *per capita* in 1980 was £ 2,125 (ptas. 382,500), which was 85 per cent of the United Kingdom average and higher than in some British regions; at the same time the Cost of living is lower in Gibraltar than in Great Britain. By force of circumstances the Rock's working population spends virtually all its earnings in Gibraltar itself, with corresponding reflections in material well-being. But the post-1969 'high wages, high productivity' policy has only partially borne fruit: the presence of Spanish labour tended to depress wages on the Rock, but the practice of index-linked cost-of-living awards has altered this situation; and the Beeching Report of 1969, besides commenting on the fact that many Gibraltarians spurned skilled industrial employment and preferred clerical or commercial work, criticized the low productivity of the Gibraltarian worker — «no more than 60 per cent of the norm acceptable in the

United Kingdom»— (Lord Beeching, *Manpower Commission Report*, 1969). Although productivity has improved, prices have risen rapidly, so that in seeking ways of earning its living Gibraltar no longer has the advantage of cheapness.

The problem of housing

One of Gibraltar's greatest problems is a housing shortage. The refusal by the Spanish government in 1965 to recognize passports issued «on behalf of the Government of Gibraltar» forced Gibraltarians resident in the Campo and commuting to work on the Rock to move back into Gibraltar, immediately exacerbating the housing problem and forcing the United Kingdom to step in with a £ 1 million (ptas. 180 million) grant to build new houses. Providing additional housing has in fact taken up almost one-third of the grants which Gibraltar has received from the Overseas Development Administration: £ 4.3 million out of £ 14 million (ptas. 774 million out of ptas. 2,520 million). The situation is not made easier by the fact that 51 per cent of the area of the Rock is owned by the British Ministry of Defence, and most of this land is used for military, naval and air force purposes; there is some degree of conflict between the Gibraltar Government and the Ministry of Defense over the transfer of land to civilian uses. Very crowded civilian living conditions on the Rock, with house prices beyond most people's means, and long waiting lists for accommodation, contrast with relatively spacious military housing which represents over half the accommodation in Gibraltar. Evidently, housing pressures would be greatly alleviated if the frontier were fully opened and Gibraltarians could once more find accommodation in the adjacent Campo.

The structure of the economy

The population of Gibraltar in 1981 consisted of a British garrison of 1,850 servicemen and a civilian population of 29,787, composed of approximately 19,500 Gibraltarians, 6,500 other British subjects and 3,500 aliens, of whom 2,663 are Moroccan workers. How does this population earn a living? A glance at Gibraltar's trade figures reveals the basic constraints upon the economy.

TABLE 1

Balance of payments of Gibraltar (£ sterling millions)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
Exports	10.8	13.7	13.9	11.9	19.5	17.0	25.6	23.8	24.5
Imports	27.0	32.4	39.6	39.4	55.5	63.0	65.8	68.4	61.7
Balance	-16.2	-18.7	-25.7	-27.5	-36.0	-46.0	-40.2	-44.6	-37.2

Sources: Barclays Bank, ABECOR Country Reports, *Gibraltar*, July 1980, July 1982, July 1984; Foreign Affairs Committee, House of Commons, *Gibraltar: The Situation of Gibraltar and United Kingdom Relations with Spain*, London, HMSO, 1981.

Note: The decline in imports in 1983 is attributable to a fall in the price of petroleum imports as well as a low level of activity in the building industry, with smaller imports of brick and cement.

Exports only cover one-third of imports and the cost of the latter is constantly rising. The United Kingdom supplies 64 per cent of the Rock's imports (other major suppliers are Japan, Spain, The Netherlands, France and Morocco, in that order) so that Gibraltarian prices necessarily reflect British inflation rates. Ninety per cent of exports consist of re-exports of fuels for ships, with the remainder comprising sales of manufactured articles and drink to visiting vessels and to Morocco. Virtually everything has to be imported into Gibraltar: fresh food from Morocco, foodstuffs, wines and spirits, fuel, even cement and water. Nevertheless, despite its trade deficit, the Rock normally enjoys a current account surplus. This is produced by invisible earnings from tourism, visits by businessmen, shipping activities, tax haven operations and, above all, from United Kingdom defence expenditures such as spending by the Ministry of Defence and the Property Services Agency, visiting service personnel, and overseas aid. The distribution of employment offers us a picture of the structure of the economy: of a labour force of 12,000 the private sector employs 35 per cent, broken down into retail and wholesale 13 per cent, construction 10 per cent, hotels, restaurants and bars 5 per cent, sea and road transport 4 per cent, and others 3 per cent. Evidently, there is very little industry apart from the construction industry, and shipbuilding, marine engineering and ship repair — the latter three activities occupying almost 25 per cent of the working population. Other manufacturing concerns only accounted for 203

workers in 1983, mainly in small— scale engineering. The public sector employs no less than 65 per cent of the labour force, of which 34 per cent is employed by the British Ministry of Defence and the Property Services Agency, and 31 per cent by the Gibraltar Government.

If we examine the various sectors of the Gibraltarian economy in more detail, however, we find that almost all have question marks hanging over them, associated with continued isolation from Spain.

Tourism

Performance in this field has suffered severely from the restrictions imposed in the 1960s, which halted the flow of tourists and visitors from Spain. It is no longer possible for tourists from the Costa del Sol to spend a day in Gibraltar (in 1964 the Rock received 343,000 day trippers of various nationalities) and the difficulties of access to Spain, hitherto an attractive feature of holidays in Gibraltar, pose problems for the Rock's tourist, travel and commercial agencies. Tourist numbers have been particularly depressed since the onset in 1974 of the economic recession in the European industrialized countries. The comparative strength of the pound sterling, to which the Gibraltarian pound is tied, plus the rise in labour costs (parity of wages with the United Kingdom is official government policy and has been achieved for public sector employees since 1978), has taken away one of the attractions of Gibraltar, namely, its cheapness. The

airstrip, which is too small to take the very large jet aircraft used in tourist charter flights, cannot be extended without Spanish collaboration, so that charter flights to Gibraltar are uneconomic compared with, say, Málaga.

The Gibraltar authorities have endeavoured, with some success, to change the nature of the tourist trade in the direction of longer-stay visits by encouraging the construction of hotels, new amenities (18,000 square feet of the Old Command Education Centre in the heart of the town is being redeveloped for shops, offices, apartments, cafés, walkways and piazzas), conference facilities and beach improvements; 60 per cent of tourist receipts are now from visitors staying in hotels, compared with 30 per cent from shopping excursionists and visitors from cruise ships and yachts; but hotel sleeper occupancy is only 30-35 per cent of capacity, and the average length of stay is no more than six days. Earnings from tourism in 1983 were £ 11 million, but this is an increase of only 7 per cent above 1974; the geographical pattern of tourism is limited (90 per cent of non-Spanish visitors come from the United Kingdom); and from 1964 to 1981 there was an enormous drop in absolute numbers of tourists, from 750,000 to 132,370.

«Gibraltar as a tourist resort cannot offer what other Mediterranean resorts can in terms of amenities, weather, standards of accommodation, hotel service, variety of food, or cost of travel and accommodation “packages”» (Foreign Affairs Committee, House of Commons, *op. cit.*, p. xlix). The cost of building and equipping new hotels in Gibraltar is very high and imported food is expensive; food costs on the Rock are 25 per cent greater, on average, than in the United Kingdom. Recreational and beach facilities are limited and so —because of the physical nature of the Rock and the frequency of the *levante* wind— is sunshine. Emphasis upon the «Britishness» of Gibraltar is likely to have a dwindling appeal as the number of xenophobic or nationalistic Britons declines and as British tourists find themselves at home in Spain itself. There is no doubt that the renewal of links with Spain would be the single most positive factor for Gibraltar tourism. At present the sector is struggling to make ends meet and is unlikely to recover sharply until the frontier is fully reopened. The partial reopening of the border in December

1982 has so far had mainly negative effects upon the Gibraltar economy. Under the regulations imposed by the Spanish authorities, Gibraltarians may make purchases in Spain, but Spanish residents are not allowed to bring back goods from Gibraltar. Accordingly, although there has been a large influx of pedestrian visitors to the Rock (tourist arrivals rose to 783,000 in 1983 and 150,000 people are now crossing the border each week), little extra income is generated for Gibraltar. Most of the arrivals in Gibraltar originate in the comparatively poor adjoining area of Spain, and are not allowed to make purchases, while the Gibraltarians who now go to the Campo to shop are spending £ 100,000 per week in La Línea and neighbouring towns. The cash outflow in 1983 was approximately £ 8.3 million, seriously affecting Gibraltar's retail sector. The depressed level of the tourist sector has an adverse impact on the rest of the Rock's economy, especially upon the construction industry and the wholesale and retail trades.

Port activities

The post-1969 siege has also affected revenues from commercial port activities. Gibraltar is strategically situated for the Mediterranean, Near East, Middle East and Far East trades. It is a focal point for cargo transshipment, bunkering (no tonnage dues are payable by ships calling solely for bunkers), chandlery (the provision of stores, spares and lubricants) and crew changes, and it has facilities for repairs, underwater cleaning, surveys and medical provision. It operates passenger and car ferry services, and is a stopover for cruise liners. The Rock earns some £ 6 million per year in direct income from ship arrivals, a substantial contribution to the economy.

But the prosperity of a port is obviously linked to its hinterland, and the effects of the border closure can be seen in various ways —for example, in the decline in the number of cruise ships calling at Gibraltar: 1968 150, 1969 124, 1974 93, 1978 52, 1979 81, 1980 87, 1981 65. In 1969 the Russian Sovrybflot transferred its Atlantic fishing-fleet base from Gibraltar to the Canary Islands. Already by 1972 Gibraltar's *entrepot* trade was less than one-seventh of what it had been in 1964. Slower world economic growth has also resulted

in a decline in the number of ships calling at Gibraltar, from 2,838 in 1980 to 2,226 in 1983. Currently, no less than 70 per cent of the calls made by deep-sea merchant ships are simply for the purpose of changing crews.

In 1980 the Gibraltar Government commissioned a report, submitted in 1981, on the feasibility of developing the commercial port to provide industrial sites, container berths, a free trade zone and an expanded transshipment business; but this would only really make sense in the context of friendlier relations with Spain and renewed access to that country.

Tax haven status

In a certain specialized field Gibraltar has sought to emulate some other small territories and compensate for her unusual circumstances. Since 1965 the Merchant Shipping (Taxation and Concessions) Ordinance has made it attractive for companies to own and operate ships in Gibraltar; since 1981 the Development Aid Ordinance has encouraged business development by exempting from income tax gains and profits arising from government-approved projects, up to the total of capital expenditure thereon. Most important, since 1967 the Companies (Taxation and Concessions) Ordinance has offered generous tax facilities to firms operating in Gibraltar but principally managing assets elsewhere. Firms receive an initial 25-year income tax holiday on profits earned outside Gibraltar and on the interest and dividends payable to non-Gibraltar residents. Companies are not liable for capital gains tax, capital transfer tax, corporation tax, surtax or exchange controls, and estate duty is very low (4-20 per cent). Proposed changes to the regulations governing offshore financial services are hoped to bring increased business by broadening the category of company qualifying for tax exemption, and improving Gibraltar's competitive position in this field. The new legislation will extend tax exemption to overseas companies which establish local control and management. It is also likely that companies which qualify for exemption will be allowed to opt to pay taxes in Gibraltar at a lower scale than domestic companies; this has the advantage that in some countries tax is not paid on repatriated profits which have been taxed at source.

Additionally, a flat rate of annual tax regardless of profits also applies to certain insurance companies, so that the Rock is emerging as an insurance centre, while changes have also recently taken place in banking legislation to meet the demands of the offshore banking sector. Commercial banks' assets in Gibraltar have risen from £12,942,000 in 1970 to £123,358,000 in 1981. Gibraltar's earnings are thus supplemented by its growing importance as an offshore financial centre and tax haven.

Gibraltar's attractions for this kind of business include its proximity to the Arab world, which makes it an ideal location for joint United Kingdom or European companies participating in Arab contracts, and its potential access to the large expatriate community living on the Costa del Sol and elsewhere in Spain. The factors which inhibit further growth, however, are beyond Gibraltar's control; these include the state of the Rock's communications with the outside world (the limited direct air links to Tangier and London only are a serious handicap to bankers and businessmen) and uncertainty about the reopening of the frontier. An open frontier, direct air routes to Madrid and Lisbon, telex and direct dialling facilities, would all help development.

A subsidized economy?

The real explanation of Gibraltar's comparative prosperity is British government expenditures on defence, salaries and wages, and grants for development projects. Gibraltar is, above all, a British bastion. The Governor is an officer on the active list; he is Commander-in-Chief of the garrison and has direct responsibility not only for defence but also for the external affairs, internal security, and financial and economic stability of the Rock. The United Kingdom maintains in Gibraltar a naval dockyard, logistics facilities for naval vessels, a maritime headquarters, an RAF airfield and headquarters, and an army garrison. These defence facilities were maintained in 1981 by 1,850 servicemen and 3,760 civilians, the latter employed by the Ministry of Defence and the Property Services Agency. The GNP (PNB) of the Rock in 1981-82 was estimated to be £84.6 million; of this total, no less than 60-65 per cent was generated by British go-

vernment spending through the Ministry of Defence, the Property Services Agency, resident and visiting servicemen, and development aid flows.

United Kingdom government *per capita* aid to Gibraltar has been, in fact, prior to the Anglo-Argentine conflict over the Falkland Islands and the subsequent pouring of aid into that colony, the highest ever given to a British dependency. After the closure of the frontier in 1969 the Rock received a grant of £ 4 million (ptas. 720 million) from the Overseas Development Administration for houses, schools and other projects. From 1970 to 1978 ODA grants totalled £ 15.8 million (ptas. 2,844 million) or £ 850 (ptas. 153,000) *per capita*. The 1978-1981 Development Programme totalled £ 14 million (ptas. 2,520 million) or £ 700 (ptas. 126,000) *per capita*, plus £ 1 million (ptas. 180 million) in technical aid. Under the 1982-1986 Development Programme the British government is expected to provide some £ 13 million (ptas 2,691 million) in development aid.

The main area of Development Programme expenditure is infrastructure, followed by housing. Long-term loans are available for 25 per cent of the cost of hotel and other tourist developments, and British aid also helps to finance housing schemes, workers' hostels, education, hospitals, social services, sports centres and water desalination plant. The Gibraltar Government is at pains to emphasize that the above amounts represent development aid and not budgetary aid and that, therefore, the Rock does not have a subsidized economy. However, with an active population of only 12,000 and therefore a very limited tax base, and with budget deficits of £ 4.9 million in 1983-84 and £ 3.5 million in 1984-85, it is difficult to disassociate Gibraltar's continued material well-being from British financial support.

To a United Kingdom itself facing considerable economic difficulties, the prospect of this economic support to Gibraltar continuing indefinitely is not welcome: «The rights of the Gibraltarians... are not the only rights to be considered... In the last resort we have to face the dilemma that the Gibraltarians' demand to remain indefinitely in exactly their present status, especially at very considerable cost to the United Kingdom taxpayer, may be unjustifiable, if not impossible, to grant» (Professor

H.C. Allen, Memorandum to Foreign Affairs Committee, House of Commons, *op. cit.*, p. xlv).

A «dockyard economy»

The most important single element in the British presence in Gibraltar has been the naval base and dockyard, which up to now have provided 25 per cent of Gibraltar's GNP (PNB) and employed over 2,000 workers, i.e., 14 per cent of the labour force. The Rock has become, effectively, a «dockyard economy». It has been the income provided by the naval dockyard that has largely enabled Gibraltar to survive the Spanish economic blockade, because it is a part of the economy with which the Spanish government has been unable to interfere. This kind of economy is not uncommon and is even comfortable — as long as it lasts. The island of Malta, however, to go no further than the Mediterranean, can bear testimony to what happens when the Royal Navy is withdrawn. This cloud on the Gibraltar horizon has now become a reality.

In July 1983 consultations between Her Majesty's Government and the Gibraltar Government on the Rock's economy concluded that although the naval base will remain, the naval dockyard will close at the end of 1984. The dockyard is being closed as part of the British government's review of military expenditure which has been going on since spring 1981. In this cost-cutting exercise, funds for the Royal Navy are being severely trimmed. The cost for the new Trident submarine guided missile, especially, has involved a reduction in the number of surface warships in the fleet (including the phasing out of the *Leander*-class frigates which the Gibraltar yard was specially equipped to service) and a more cost-effective refitting system which has produced nothing less than the closure of the historic Chatham dockyard — an enterprise upon which the town of Chatham has traditionally depended — and the run-down of other important naval dockyards such as Portsmouth. Trident will cost the British taxpayer £ 10,000 million.

It was impossible that Gibraltar should escape these economy measures. Although the dockyard is the largest single employer in Gibraltar, it only accounts for 4 per cent of the

Royal Navy's total dockyard capacity. The cost of carrying out naval repair work there is 10 per cent higher than in a United Kingdom dockyard due to a higher incidence of defective work and the cost of transporting materials from Great Britain (these defects will also obtain, of course, with the conversion of the dockyard to commercial use). The usefulness of the Gibraltar dockyard had diminished, anyway, with the withdrawal of a permanent Royal Navy presence from the Mediterranean; much of the work allotted to the dockyard had been for political rather than defence reasons. But closure of the dockyard would almost certainly destroy the Rock's economy unless adequate alternative employment were provided. «Gibraltar could not survive at present without the dockyard and military installations» (House of Commons Foreign Affairs Committee, *op. cit.*, p. LVIII).

Effectively, after the closure of the naval dockyard, it will immediately reopen as the civilian Gibraltar Ship Repair Company, with ownership vested in the Gibraltar Government. The management company contracted by the Gibraltar Government actually to run the new yard is A. & P. Appledore International, a leading British shipbuilding consultancy firm of widespread experience, which has advised on the expansion of the South Korean yards and has helped British Shipbuilders with their productivity drive. The United Kingdom government is providing up to £ 28 million for the dockyard's commercial conversion and working capital, and to meet any losses incurred in the first two years of operation. The management company is expected to concentrate on medium-sized vessels of up to 70,000 tons deadweight. Given the number and variety of vessels passing through the Straits of Gibraltar, they believe that up to 150 vessels per year can be attracted to the yard. Besides handling merchant vessels, Appledore's plans include a marina and facilities for large yachts.

Evidently, the outlook for the Gibraltarian economy is highly dependent on a successful switch of the dockyard to commercial use. This in turn will depend on significant improvements in turnover and productivity, and Appledore is insisting on changes in work practices, trade demarcations and double shift working. The job losses likely to follow upon such

changes will affect one in six of Gibraltar's labour force.

There are discrepancies in the figures being quoted for the total number of jobs likely to be put at risk, probably because of the physical integration of the naval base with the dockyard and the difficulty of disaggregating the two work forces. The Ministry of Defence in London says 950 jobs could be affected; the Chief Minister of Gibraltar, Sir Joshua Hassan, says 2,750. Similarly, estimates vary for the number of workers who will initially be re-employed by the new commercial shipyard, from 300 to 700. At worst, the closure of the naval dockyard could mean the direct loss of 1,400 jobs, plus another 500 indirectly, in dockyard-related service activities. Whatever the details, the loss of jobs expected to result from the conversion of the naval dockyard into a commercial concern will represent a serious increase in unemployment in Gibraltar, and the change has been strongly opposed by the Transport and General Workers Union (which claims to represent 80 per cent of the working population of Gibraltar), the Gibraltar Trades Council and the Gibraltar House of Assembly.

There are certainly no grounds for optimism about the prospects for the new shipyard, which will have to struggle for survival in a highly competitive world market in which virtually no ship repair yards are profitable. The potential world ship repair market has been reduced by the considerable current over-capacity in world merchant fleets and by widespread official policies of scrapping and rebuilding. Significantly, no private investors have been forthcoming to put money into the new company. Gibraltar's commercial port and shipyard do not have any exclusive hinterland or potential for *entrepot* trade that is not shared with Málaga, Cádiz and Algeciras (which has developed into a major cargo, passenger and container port just across the bay from the Rock). More particularly, the Gibraltar shipyard will have no geographical advantages over the existing huge modern yards at Cádiz and Lisbon, while having the disadvantage of much higher wage levels because of the parity with United Kingdom yards negotiated some years ago. The neighbouring Spanish and Portuguese shipyards are heavily subsidized; there is an obvious likelihood of severe Spanish

competition, fair or unfair, from critically underemployed yards, simply to ensure the failure of the Gibraltar enterprise; and Spain is also unlikely to supply the Gibraltar yard with steel and components to enable it to compete with its own yards.

III. A FUTURE IN COMMON: GIBRALTAR AND THE CAMPO

A well-known study in the early 1970s by Ramón Tamames and Maxwell Stamp Associates (*Gibraltar British or Spanish: The Economic Prospects*, 1974) concluded that the best prospects for Gibraltar's future lay in close economic relations with the Campo, and the desirability of these links has subsequently been recognized by British bank reports and by Gibraltarian leaders themselves. The Chief Minister, Sir Joshua Hassan, said in evidence to the House of Commons Foreign Affairs Committee: «It must be evident that the removal of the restrictions, broadly speaking, would be an overall plus for Gibraltar...»; and Mr. W.J. Garcia of the Gibraltar Chamber of Commerce also stated, in evidence to the same Committee, that there was no doubt that the Gibraltarians would enjoy a great deal of material success if the frontier were opened.

A prosperous Gibraltarian economy, unless artificially supported by ever-increasing subsidies from the United Kingdom, implies renewed links with the Campo. An open border and economic development in cooperation with Spain would create diverse job opportunities for both parties and reduce Gibraltar's dependence upon Great Britain. With housing for ordinary Gibraltarians and incomers in short supply on the Rock, the Campo could once more become an important residential area for Gibraltar, while the property market on the Rock itself, at present stagnating, would receive a boost. Joint schemes for water and electricity provision would be attractive to Gibraltar, while the Campo would rapidly displace Morocco as the main supplier of food to the Rock. Because of the difficulty of establishing any viable manufacturing alternatives in Gibraltar, tourism is seen as the main opportunity for diversifying the Rock's economy, and this too ought to be a joint endeavour. The enlargement of Gibraltar airport would depend

on Spanish agreement and would compete with Málaga; but it would attract tourists to the southern end of the Costa del Sol and the coast of Cádiz west of Tarifa, at present underdeveloped because of distance from the latter airport. Tourist officials in Gibraltar expect that with the full opening of the frontier, upwards of 5,000 visitors per day could be expected, given the facts that on the neighbouring Costa del Sol there are already 250,000 tourist beds and a resident population of one million. A more dynamic tourist industry in Gibraltar would be complementary to that of the Costa del Sol, adding not only entertainment and shopping but also a strong dash of history to the attractions.

Socio-political considerations

There are, however, socio-political dimensions to the Gibraltar dispute which both complicate and facilitate an early solution. Spain's policy of isolating the Rock was highly counter-productive at the political level. It levied a high human cost on more than one thousand Gibraltarian families who were split up for 13 years by the *verja*. The blockade also meant claustrophobia, monotony and lack of cultural stimulation for the majority of Gibraltarians, with little other recreation than driving 10,000 cars around two miles of road on two-and-three-quarter square miles of limestone rock. But instead of stifling them into submission, Franco's closure of the frontier made Gibraltarians more determined than ever to remain British, and at the same time deeply suspicious of outsiders in general, of Spain in particular, and of discussions about their future — witness the anxious reaction to the 1980 Lisbon proposals to reopen the frontier. Most unfortunately, from Spain's point of view, the Rock's isolation has «dehispanized» the Gibraltarians who, prior to the blockade, had much more in common — in family, social, linguistic, cultural and economic relationships — with Andalusia than with Great Britain. An entire generation has grown up in Gibraltar which does not know Spain. The closure of the frontier helped Gibraltarians to discover themselves and kindled an *esprit* hitherto absent.

The Rock's feeling of «Britishness» has been reinforced by the United Kingdom government's assurance in 1969 that it would

«never enter into arrangements under which the peoples of Gibraltar would pass under the sovereignty of another state against their freely and democratically expressed wishes» and by the granting in 1981 of full British nationality to the Gibraltarians under the British Nationality Bill, a tangible guarantee of continued links with the United Kingdom, in contrast to the status «Citizens of the British Dependent Territories» granted to the inhabitants of Hong Kong and the Falkland Islands.

Moreover, some Gibraltarians would argue, would there be any advantage in joining Andalusia, Spain's Third World, with its unemployment, poverty and unrest? The vaunted Economic and Social Development Plan for the Campo de Gibraltar has foundered, mocking Franco's words to the Directing Commission of the Plan: «We must reverse the differences which formerly existed between Gibraltar and the Campo de Gibraltar... For the Campo de Gibraltar to become superior to Gibraltar is the best way of attracting Gibraltar to Spain and making the path easier». Gibraltarians can compare their own 4 per cent unemployment with the 35 per cent unemployment across the border. Watching Spanish television they can see on their screens threats to Spain's fledgling democracy and compare this with their own cramped but secure way of life. Small wonder that a 1982 newspaper poll in Gibraltar indicated almost 70 per cent of Gibraltarians to be in favour of a continued closed frontier.

Similarly, Spanish miscalculations and misunderstandings about Great Britain's commitment to the Gibraltarian community, and the political significance of the Rock in British eyes, prejudices the well-being of La Línea and the other municipalities of the Campo of Gibraltar, whose future prosperity also relates to the full opening of the frontier.

Fortunately there are now new contexts within which ways can be sought out of the *impasse*, benefitting the three communities involved (Gibraltarian, Spanish and British) and removing a serious irritant to relations between two nations who are close European partners. Spain's membership of NATO and the EEC, especially, introduces a hitherto absent element of urgency into efforts to find a solution to the Gibraltar question and promises a finite duration to the long-running saga.

Spain's membership of NATO since 1982 provides a vehicle for Spanish access to Gibraltar, should the Rock be expanded as a NATO base. Spain is also scheduled to join the European Community in 1986, for which she requires British goodwill. The present frontier restrictions —both Spain's constraints upon the movements of goods and of non-Gibraltarian and non-Spanish passport holders, and Gibraltar's old limitations upon the movements and activities of Spanish citizens— would contravene the Treaty of Rome and could not endure beyond Spain's entry into the EEC. Both Spaniards and Gibraltarians would have the right to work, to acquire property and to establish business in each other's territory.

Some Gibraltarians foresee an economic and demographic invasion which would be difficult to prevent under EEC law. In reality, allowing Spaniards to own property on the Rock has more symbolic than real significance, given the shortage of housing in Gibraltar. Similarly, the idea that Gibraltar might be swamped by unemployed *andaluces* is a little far-fetched: Spanish access to the Gibraltar labour market will be subject to the same transitional period as the rest of the EEC. But the position of the Moroccans at present employed on the Rock would be a risk. The Gibraltar Government has given a pledge that no Moroccans will be discharged in order to employ Spaniards; but if Spain entered the EEC and the frontier were reopened, the Treaty of Rome would require that EEC nationals should have priority of employment over non-EEC nationals; and there would be a natural tendency for Gibraltar increasingly to employ better-qualified people living in the adjacent area; employing Spaniards, for example, would not add to the housing problems of Gibraltar.

The reality is that the economic fortunes of both Gibraltar and Spain are inextricably linked, *vis-à-vis* the EEC as in other respects. Both communities will need transitional arrangements to help them to adjust to full Community membership, to protect them against dumping from the rest of the EEC, and to obtain appropriate Community regional aid —the latter best sought under a coherent regional plan for the Campo de Gibraltar.

The implementation of the 1980 Lisbon Agreement was postponed because of the Falklands conflict of 1982, in which Spanish

sympathies were broadly with Argentina. But since the election of a socialist government in Spain in October 1982 there has been an improvement in the climate of discussion between Madrid and London over the future of Gibraltar. There have been several meetings on the issue between the Spanish and British foreign ministers, and statements from these and other sources show an encouraging convergence of attitudes.

The British House of Commons now recognizes that the time is ripe for new initiatives to solve an issue which has vexed Anglo-Spanish relations for over two centuries. In July 1981 the all-party Foreign Affairs Committee presented to the British Foreign Secretary a report (*Gibraltar: The Situation of Gibraltar and United Kingdom Relations with Spain*) which unanimously recommended the London government to offer Spain the same rights in Gibraltar as the United Kingdom's Common Market partners and to guarantee to Spaniards in Gibraltar the rights which Gibraltarians enjoy in Spain, as first steps to a settlement over the Rock. Sir Anthony Kershaw, the Chairman of the Committee, stated: «I think the Spanish must realise that we cannot sell Gibraltar down the river. On the other hand, Gibraltar must realise they have not got a permanent veto ... We would like to see the restrictions on the border removed as soon as possible and, in order to do that, we think the British Government should make this gesture». By giving Spain the rights of EEC membership in advance of her accession in 1986, Great Britain would effectively remove all trade and commercial barriers, but would then expect Spain to reciprocate by removing the border restrictions.

Successive British governments, hitherto, have faced Gibraltarians with the crude option of choosing between the United Kingdom and Spain. At last an imaginative proposal has been put forward by Great Britain which has been welcomed in Madrid as dispassionate and as reflecting the Spanish position in many ways (as set out in Spain's proposals of May 1966, published in Madrid in 1968 as *Negotiations on Gibraltar* or the «Second Spanish Red Book»). Later, in 1973, Spain offered Gibraltarians dual Spanish and British nationality, a Statute of Autonomy to be guaranteed by the United Nations, and averred that Spain «would

respect the present rights and the present political, administrative and legislative organizations for the citizens of Gibraltar». Once the stalemate is broken, a constitution for Gibraltar acceptable to all three parties is not beyond the wit of man to devise. The House of Commons Foreign Affairs Committee, for example, calls attention to the statutes of autonomy being granted to Catalonia, the Basque Country, Galicia, Andalusia and other Spanish regions.

An alternative formula is that proposed in 1981 by the Marqués del Duero, British Member of the European Parliament. This solution proposes a condominium similar to Andorra, which has two Heads of State (the President of the French Republic and the Spanish Bishop of Seo de Urgel) who appoint representatives to administer the country. In addition, various local assemblies are elected by universal suffrage. In the case of Gibraltar the monarchs of Spain and the United Kingdom would be joint monarchs of Gibraltar, with equal ownership rights. The Rock would fly its own flag and the British and Spanish flags. Gibraltarians would enjoy dual Spanish and British nationality. The Heads of State would be represented by two Governors-General (as was the case in the Anglo-French condominium of the New Hebrides); or a Governor-General would be appointed for, say, a five-year term, with the right of appointment alternating between the two Heads of State. Gibraltar would retain its House of Assembly and the administration of the Chief Minister. The Rock would be represented in the EEC Council of Ministers by the United Kingdom, as now, and subsequently by Spain as well. Gibraltar would also be given a seat in the European Parliament; with a population of only 30.000 she would probably be over-represented, but Luxembourg, with only 330.000 inhabitants, has six members. The Gibraltar naval base would be available to all NATO members, including Spain.

Under such formula the Gibraltarians would obtain a privileged status which would compensate them for giving up their present privileged status. The Rock would become an independent state like Monaco or Lichtenstein, and hopefully as prosperous. The Gibraltarians would be free to cultivate and amplify the best of their historical and cultural links

with both Spain and Great Britain; and Gibraltar would be a mutually beneficial partnership between the crowns of Spain and the United Kingdom instead of a major impediment to good relations between the two countries.

For their part, the Spanish authorities have reiterated the willingness to respect the wishes and the interests of the Gibraltarians originally expressed in 1968 and 1973. The Spanish Foreign Minister, Sr. Fernando Morán, speaking in Oxford in October 1984, while reasserting Spain's claims to sovereignty over the Rock and over the «Neutral Ground» gradually incorporated into the Gibraltar administration (and on which Gibraltar airport is built) spoke of «formulae of political autonomy whereby the population of Gibraltar would hardly be affected at all in their daily life by the solution of the territorial dispute». Far from wishing «to annex, absorb or subjugate the population» the Spanish government felt «the greatest respect for the inhabitants of the Rock and for their human and social values» and was «willing to listen to, consult and even respect the wishes of the population of Gibraltar as regards the administrative, economic, social and educational regimes to be established on the Rock». Should they so desire, the Minister added, Gibraltar's inhabitants could «retain their British nationality and maintain their personal links with the United Kingdom». These assu-

rances might find more acceptance among the Gibraltarians who now go into Andalusia to visit their relatives and to shop, and who are discovering a democratic Spain, very different from that of Franco, and in some ways a more modern society than that of the Rock.

The Anglo-Spanish talks should be seen, or course, in the context of the Anglo-Chinese agreement over the future of Hong Kong and the Anglo-Argentine negotiations which sooner or later will have to be held over the Falkland Islands. Ironically, the next logical phase to follow the resolution of the Gibraltar dispute will be the question of the Spanish enclaves of Ceuta and Melilla on the adjacent coast of Morocco. Spain too has the problem of the «confetti of empire». Many Moroccan politicians support Spain's claim to Gibraltar, assuming that Spain will eventually recover it and then be compelled by logic and political pressure to hand over Ceuta and Melilla, which since December 1983 have been under the same economic pressure which Spain applies to Gibraltar, and with the same effects upon their commerce. Analogous opposition will also be expressed by Spanish interests to such a hand-over: access for Spaniards to a duty-free Gibraltar is already casting a shadow over Ceuta's businessmen, and the Spanish military and right-wing political groups will be in no mind to relinquish Spain's «Sovereign Places in Africa».

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