Prime Minister (2)

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CC PL

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*From the Minister for Trade*

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

29 May 1985

Dear Chief Secretary

**ECGD COVER FOR TURKEY**

At a meeting of EX on ~~13~~ attached February, it was decided to reserve all available ECGD medium-term cover on Turkey for two projects: the Bosphorus Bridge and the Akkuyu Power Station. It was agreed that, pending further review, all other applications should be declined. In consequence of this, ECGD wrote on 28 February to all exporters who had been given provisional indications on a "first come, first served" basis, notifying them that the availability of cover had been exhausted for the time being and withdrawing the indications.

The widespread publicity given to the failure of the British bid for the Bosphorus Bridge has led a number of exporters to enquire whether the cover reserved for that project could be re-allocated in their favour. Clearly, the EX decision did not allow for this and in any event there is still some possibility that Cleveland Bridge may obtain some business as sub-contractors to the successful Japanese bidder, though this is highly uncertain. Several enquirers have therefore been told that the position remains that no cover is available for the time being. Originally it was agreed that a general review of the Section 2 limit position should await the outcome of current discussions between Turkey and the IMF, but as these have now broken down and seem unlikely to be resumed before late Summer at the earliest, it has been agreed amongst officials that the review should not be delayed further. We expect the conclusions from this review to emerge within a month of so.

We are, however, being strongly pressed by M W Kellogg Ltd for support to proceed with an order for which they claim to have advanced to the contract stage, and where there seems to be some risk of further adverse publicity if we maintain the position of declining support. The facts are briefly as follows. Kellogg signed a contract in 1975 to construct an Ammonia Plant at Gemlik, but work was later stopped and the contract suspended. Early in 1984, negotiations were opened for completing the work by conversion to natural gas feedstock. Kellogg reached conditional agreement late in 1984 for amending their original contract to provide for this, but effectiveness of the new contract was dependent upon approvals from the Turkish Ministries of Planning and Finance and upon suitable arrangements for credit finance.

Kellogg were notified on 28 February, like all others, about the withdrawal of ECGD cover. However, as they believed they were on the point of securing the necessary clearances at the Turkish end, they decided to go on with negotiations nothwithstanding. They say that the requisite Turkish approvals have now been given and only completion of credit arrangements stands in the way of the contract becoming effective. Because of the ECGD position, they have arranged to source all additional goods required from France, leaving only the services element with the UK. This would require ECGD cover of £6m. They say that at the moment their client is committed to proceeding with them, but if finance cannot be arranged even for this reduced UK portion he will be forced to turn elsewhere - almost certainly to France.

Kellogg are naturally making play with the argument that their business is virtually firm and it is unfair to refuse them cover because of reservations for other business which is a long way from firm and may never materialise at all. They cannot argue any moral commitment on the part of HMG, since they admit to having received the withdrawal of the ECGD indication and the decision to go on with negotiations was entirely their own.

On the one hand, therefore, we have Kellogg's likely public criticism that the Government have, first compelled them to put the bulk of the work to France; and secondly, they now stand to lose the design and management work as well. On the other hand, if we were now to provide cover, this could well lead to protests from other companies claiming that they could have done the same thing and were in effect being penalised for playing to the rules. There are in fact several other companies who believe themselves well placed to secure business when ECGD withdrew their indications, though none probably were quite as close as Kellogg's. However, it is not clear that Kellogg could make a better national interest case on industry and employment grounds than any of the others, and certainly I do not regard their business as having anything like the same claim to priority treatment as Bosphorus Bridge and Akkuyu. In all the circumstances, in view of colleagues' decision on Turkey, I believe the right course is to maintain the answer already given to Kellogg that ECGD cover cannot be provided for their order. We would simply have to ride any protests. Unless you or other colleagues think differently, I propose to reply accordingly to Kellogg by 31 May, which is the deadline by which they must know one way or the other.

I am copying to EX members and Sir Robert Armstrong.

Yours sincerely

Matthew Cocks

for PAUL CHANNON
(approved by the Minister
and signed in his absence)

TRADE: Non tariff barriers: Pt 4

252/16

Treasury Chambers, Parliament Street, SW1P 3AG

CDP 3/6.

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

31 May 1985

Dear Paul,

**ECGD COVER FOR TURKEY**

In Peter Rees' absence, I am replying to your letter of 29 May

Treasury Ministers were only prepared to agree to an inc in the country limit for Turkey in order to accommodate the wholly-exceptional Bosphorus Bridge case. Having lost that, Peter Rees proposed (in a letter of 3 May) that the limit should be cut back to £226 million - enough to cover the Akkuyu Power Station contract, if win it, but nothing else.

In the present situation, accurately described in your letter, I see no reason to alter that judgement. I therefore entirely agree that ECGD should continue to refuse cover to M W Kellogg Limited, as you suggest in your letter. I am copying this to other members of EX and Sir Robert Armstrong.

Yours
John

JOHN MOORE

File

# EXPORT LOANS

Line to take

1 General Policy on 'soft' export finance. There has been no 'U-turn'.

Our policy remains as before to:-

(i) work in the longer term for a reduction of subsidies for exports through tighter international discipline on the use of soft financing;

(ii) be prepared in the meantime to support competitive British bids which are being undermined by offers of soft financing from other Governments.

2 Bangkok Buses. Leyland Bus has led the way so far on the strength of its own proposals. When a late Belgian offer of 'soft money' threatened to erode the British company's hard-earned position, HMG swiftly made countervailing support available.

3 Second Bosphorus Bridge. Our aid was provided to back the competitive British bid for the bridge itself. This was not sufficient to outweigh the very large Japanese soft loan which was available for other parts of the project. My views of the Japanese tactics are well known to this House and, indeed, the Japanese Prime Minister. I very much hope that Cleveland Bridge might still be able to play an important part in this project.

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# EXPORT LOANS

## Background - 22 May Guardian Article

An article in yesterday's Guardian (p.32) claims that the Prime Minister has ordered a 'U-turn' on soft loans for export bids as a result of Britain's failure to win the Second Bosphorus Bridge contract. It goes on to cite the aid made available for Leyland's bid to secure a £385 million bus project in Bangkok as an example of the new policy. In fact support for both these projects has been in line with existing Government policy of working at international level for a reduction in subsidies for exports, but at the same time protecting competitive British bids against excessive offers of soft financing from competing Governments.

In the case of the Bosphorus Bridge, the aid was focussed on the bridge itself where Cleveland Bridge were - without aid - competitive on price. On the Bangkok project, Leyland secured the lead position without aid only to have that threatened by a late Belgian offer, which was in breach of a no-aid agreement between the credit agencies involved in the bidding. Details on the latest position in respect of both projects are attached.

## Background - Bangkok Bus Project

In late 1984 the Thais put to international tender a five year modernisation programme of the Bangkok Mass Transit Authority's (BMTA) bus operations, the predominant element being supply of around 4,000 buses. Competition came from Belgium (Van Hool), France (Renault), Spain (Pegaso) and a Singapore 'front' company, Singapore Motor and Leasing (SML), apparently being a Japanese, Korean, West German joint venture.

Confidential /Before the January bids were entered, an international agreement was reached that no aid would be offered to the Thais in support of bids./ A short list of two, apparently decided on technical appraisal, was decided early March with Leyland placed ahead of SML. Only the short list prices are known: SML are considerably cheaper than Leyland's £385m. But the subsequent negotiations have only been held with Leyland.

In these negotiations the Thais consistently pressed for aid, which Leyland and ourselves refused, until late April when the Belgians, in an effort to re-enter the bidding, made an aid offer amounting to some £20m for an element of the project worth about £80m.

The Belgian offer put us in an awkward position, (for though in breach of the no-aid agreement), it was technically within the international rules being linked to business of £80m, compared to the £385m project Leyland is trying to win. Ministers agreed to provide aid to prevent Leyland being put unfairly at a disadvantage. However, to keep within the rules, the UK offer was tailored strictly to match the Belgian one ie. approximately £20m in respect of about £80m of business.

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## Present Position

/A UK matching offer was presented to Thai Minister of Communications, Samak, on 10 May. Samak suggested collaboration between Leyland and Van Hool including an order for a few hundred articulated buses with Leyland running units. Leyland have rejected the proposal, arguing their bid is an integrated whole and that articulated buses would be completely impractical for Bangkok streets./

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Leyland are still front-runners but their proposals have yet to be approved by the Thai Cabinet which is expected to consider them in the next few weeks.

## Background - Second Bosphorus Bridge

Latest developments are:

1 The Prime Minister's reply to Mr Nakasone's explanatory note has been delivered. Our Ambassador took the opportunity to stress again our desire that Cleveland Bridge should collaborate with the Japanese firms on the project. There has not yet been a response. This can be expected following Mr Nakasone's discussions with Mr Ozal (Turkish Prime Minister) in Tokyo this week.

2 After a promising start, discussions at company level have been stalled following the recent political exchanges. Cleveland's contact in the IHI and NKK, two of the Japanese firms in the winning consortium, are now saying that they cannot pursue discussions further with the British firm, because the matter has been 'elevated' out of their hands. Cleveland are planning to make fresh approaches at higher levels in each of the Japanese firms.

3 We await the reaction to the Prime Minister's letter before making recommendations on the next steps.

4 Note: all above details are confidential.

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