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SECRETARY OF STATE FOR TRADE AND INDUSTRY

Egypt: ATP: Cairo Wastewater Project

1. I understand that USAID officers in Cairo have approached our Embassy to say that they had a US\$450m saving on their Cairo Wastewater contracts on the so-called "West Bank" which they thought might be used towards Phase II of our activities on the East Bank.
2. For the reasons given below, I think that this is a helpful offer which we should welcome. But I know that there are those in construction and banking circles who would like to keep the East Bank as a British preserve. I think we need to agree on how we should respond.
3. The estimated offshore costs for Phase II are £500m. We have no plans to offer new capital aid to Egypt, so the only British aid available would be from the ATP. Even if we could offer ATP support for all the Phase II contracts, this would leave the Egyptians with a massive borrowing requirement, which they would be unlikely to want to undertake in their present economic circumstances. As an all-British preserve, therefore, I doubt whether Phase II would go ahead at all in the foreseeable future and this would call into question the value of our contribution to Phase I which cannot be fully effective without Phase II. Apart from the difficulties at the Egyptian end, scarcities here of ATP funds and perhaps more importantly ECGD cover would almost certainly make it impossible for us to fund the whole operation. As I argued before the Prime Minister's visit, given her interest in and visit to the project, the Egyptians will expect some participation by us in Phase II, and our failure to do so would be politically embarrassing. I recognise, however, that it might not be possible for us to fund any of Phase II, if for example it were decided to support Ain Moussa, and the Egyptians decided to go ahead with both projects simultaneously.

/ If the ...



4. If the Americans were to meet US\$450m of the offshore costs, that would still leave a lot of business available for Britain, provided ATP support and ECGD cover is available. I think therefore that we should welcome the American offer but ask them to concentrate on the low technology contracts - the Maadi rock tunnel (in which they have already expressed an interest) and the branch tunnels - leaving the higher technology contracts for possible British participation. This makes sense because of the need for compatibility between plant and equipment installed by British contractors under Phase I, and that to be installed under Phase II. I imagine that the higher technology contracts would anyway be a more attractive proposition to you for ATP support.

5. It would be useful to know soon whether you agree with this approach. USAID would like an answer by 7 November.

6. I am copying this letter to the Prime Minister, in view of her recent visit to the project, and to Nigel Lawson.

A handwritten signature in black ink, appearing to be 'G. Howe', is located below the text of the letter.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
30 October 1985



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Secretary of State for Trade and Industry

6 November 1985

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
LONDON
SW1

CDP/Am

Dear Geoffrey,

EGYPT : ATP : CAIRO WASTEWATER PROJECT

Thank you for your minute of 30 October about the USAID proposal to put surplus US aid funds towards the financing of Cairo Wastewater Phase II.

2 I am concerned that we should not jeopardize the industrial and commercial advantages gained from our efforts on Phase I, since British industry is now in a strong position to secure ongoing business from this project as it develops into the next Century. The UK water industry would deeply resent an American takeover of Phase II.

3 The Egyptian Government has not yet asked for finance for Phase II. Indeed there is no real prospect of Phase II going ahead for two to three years at the earliest. Moreover it would then be staged over several years. There is therefore no need now - or for two or three years - to make any formal commitment towards funding this Phase. I concede that current aid and credit constraints make it difficult to foresee the UK alone financing the whole cost of Phase II unless works were spread over a very long period (not beyond the bounds of possibility). But, as you rightly say, there would be political embarrassment if we failed to show continuing interest and a degree of commitment (leaving aside for the time being the level of that commitment).

4 We should, therefore, aim to keep open all the options for Phase II funding. It may, for example, be possible to harness multilateral or even Arab aid; indeed, British Wastewater Ltd - the consortium representing UK suppliers - believe co-financing may be feasible. British firms, because of their previous involvement, should be in an excellent position to win work put out to international tender.

JF2AKR



5 I would not see a cautious welcome for the American proposal as inconsistent with the above strategy. But we should seek a strict limit on America's involvement in the East Bank. We could, however, concede that the Maadi rock tunnel on the East Bank (Contract13) might be appropriate for US aid finance; American expertise on hard rock tunnel drilling would, in any event, have to be employed. Moreover the tunnel does have some relationship to the American West Bank scheme.

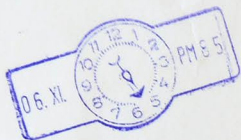
6 I am copying this letter to the Prime Minister and to Nigel Lawson.

Leon

LEON BRITTAN

JF2AKR

Relations: EGYPT. Nov 80



I would not see a certain window for the reaction process
in connection with the above activity. But we should not
forget that the reaction is in the past tense. We could
perhaps consider that the reaction took place on the last day
of the month. It might be appropriate for us to consider
the possibility of a reaction taking place in any case. In
the event the reaction has been established to
be a reaction of the past tense.

I am copying this letter to the Director General and to the
Director General.

Handwritten signature or initials in blue ink, appearing to be 'J. S. S.' or similar.

THE DIRECTOR