

PRIME MINISTER

THIRD BOSPHORUS BRIDGE:
ISTANBUL EXPRESSWAY

I attach composite advice from the DTI and our Ambassador in Turkey on how you should respond to Mayor Dalan's overtures on financing for the Third Bosphorus Bridge and the Istanbul Expressway contracts.

In essence the advice is:

- not to rush into a reply but for Lord Young to discuss the prospects that the two contracts which actually proceed with Mr. Yusuf Ozal (the Minister of Finance) next Tuesday, without revealing your private contacts with Mayor Dalan;
- but if there seems a reasonable prospect that one or other or both of them will go ahead, then there is some scope for improving the financial terms of our offer.

Agree to this approach?

C.D.P?

Yes - but we must then respond only with a holding reply.
not

CHARLES POWELL
15 April 1988

dti

the department for Enterprise

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The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

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Dear Charles,

THIRD BOSPHORUS BRIDGE

In your letter of ⁹ April you sought views on how the Prime Minister might respond to the Mayor of Istanbul's proposals for handling the Third Bosphorus Bridge and Istanbul Expressway projects. You will meanwhile have seen our Ambassador's telegrams Otters 75 and 76 commenting upon the proposals and advising that Lord Young should sound out Yusuf Ozal and the Treasury Minister, Canevi who will be in London next week.

Officials have discussed Mr Dalan's ideas with Trafalgar House and Tarmac/Wimpey on a preliminary and confidential basis. Neither favour the Mayor's 'composite' approach, and nor do we. Trafalgar House recognise that their prospects have receded considerably. They nonetheless intend to press their current proposals in the belief that Dr Brown's design is technically unsound and that it would not attract offshore funding. They contend that their fully financed BOOT offer should not be compared with STFA's "inadequate" bid. TH propose to play things long

Mr Dalan's suggestion would reduce TH to the role of a minor materials supplier. TH would be prepared to do a deal only if their name were associated with what they regarded as a technically sound design and they were to obtain a satisfactory share of work.

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Wimpey/Tarmac, despite the decision of the Turkish Treasury to defer the project, remain hopeful of executing the contract which has been provisionally awarded to them. They will try to get an undertaking that the project will proceed in a year's time. They (and for that matter TH) believe that the Expressway, with its many intersections, could not be converted into a BOOT toll road without prohibitive cost, practical problems and time loss. Linking their project with the Bridge could bring only further complications, delay and cost.

We and other Departments concerned, generally share the companies' assessment. While it now looks unlikely that Mr Dalan wishes to give Trafalgar House the design and build contract for the Bridge, it remains to be seen whether Dr Brown's design will prove to be sound, such that offshore finance can be attracted. Without having access to the design we cannot comment upon its technical validity. Dr Brown is a controversial figure and we are investigating his part in other bridge designs.

Mayor Dalan's purpose seems to be to try to persuade Ankara to get both projects moving, to manoeuvre us into repackaging or improving our aid offers and to get us to support residual UK elements in SFTA's bid for the Bridge. He purports not to understand that the proportion of ATP (30.1% of the UK content) offered for the two projects is identical. We are doubtful whether an increase in the concessionality on the Expressway would in itself overcome Turkish Treasury objections and see no benefit in linking this project with the Bridge. Contracts (worth some £3m) for steel cables for the Second Bridge were won by UK suppliers on the back of Japanese aid. If our contribution to the Third Bridge were confined to this, there would be little or no commercial and industrial justification for offering aid.

Like Mr Daunt, we see no advantage in a snap reply to Mr Dalan. (The Turkish press is putting it about that Mrs Thatcher has until 10 May to respond.) As our Ambassador suggests, Lord Young will have the opportunity next week of sounding two key Turkish Ministers about the likely speed with which the two projects will proceed and on what terms. This may enable us to refine a reply to Mr Dalan and we shall know by then the considered views of the British companies.

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As for the Bridge, we could go some way to meet the Mayor. For example, Trafalgar House say they could trim their price and could reduce it appreciably if they could bring themselves to endorse an innovative design with a lower steel content. TH would be willing to throw in their lot with STFA. It would be worth offering aid for the Third Bridge only if Trafalgar House were cut in on the design work and British companies could be assured of a substantial share of the material supply, not just cables, ie, we could have a share of the project. Again we could consider increasing the concessionality if this would help clinch a worthwhile contract. We offered 37% for the Second Bridge, but that was against fierce competition on financing from the Japanese. On the Third Bridge the Japanese are bidding with TH and we are discussing joint financing with the Japanese Government. No other aid offers have been notified.

While we must see what Yusuf Ozal has to say next week, we believe that both projects will move slowly and that although we must keep Mr Dalan in play, the British companies will not want to rush into making concessions.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office), Alex Allan (HM Treasury) and Myles Wickstead (Overseas Development Administration).

Yansen
Steph Ratcliffe

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Private Secretary

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From the Private Secretary

17 April 1988

Third Bosphorus Bridge

Thank you for your letter of 14 April about the Mayor of Istanbul's proposals on the Third Bosphorus Bridge and Istanbul Expressway project.

The Prime Minister agrees that the first step should be for Lord Young to discuss this next week with Mr. Yusuf Ozal and Mr. Canevi. Subject to their views, she would like the ideas in the penultimate main paragraph of your letter worked up. She also thinks that she must give Mr. Dalan at least a holding reply. I should be grateful if you could let me have a draft in the course of 18 April.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office), Alex Allan (HM Treasury) and Myles Wickstead (ODA).

(CHARLES POWELL)

Stephen Ratcliffe, Esq.,
Department of Trade and Industry.

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