

PO-CH /NL/0352

PART A



Part. A

**SECRET**

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Begins: 9/4/88.

Ends: 25/7/88.



PO -CH /NL/0352



PART A

Chancellor's (Lawson) Papers:

POSSIBLE MILITARY AID  
FOR TURKEY

PO -CH /NL/0352

PO -CH

PART A

DD's: 25 Years

22/11/95.



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10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

9 April 1988

*Dear Lyr,*

MILITARY ASSISTANCE FOR TURKEY

As a result of her various discussions in Turkey, including her meeting with the Commander of the Turkish First Army, the Prime Minister was impressed by the extent to which Turkey's armed forces are ill-equipped to meet the threat on NATO's South-Eastern flank. She concludes that Turkey does indeed have a pressing need for further military aid and would like to see a note on this problem. It might cover the following points:

- the scale of military aid which Turkey already receives, either bilaterally or through NATO;
- the use which is made of this;
- what scope, if any, we see for an increase in NATO's assistance, and for persuading the Americans and Germans to do more;
- the arguments for and against the United Kingdom making more of a contribution in this field.

On this last point you will want to take into account:

- the contributions we are already making through NATO;
- the scale of additional help which would be required to make a significant contribution to upgrading the effectiveness of Turkey's armed forces;
- the scope for finding additional funds, either from the defence budget, or by diverting ATP or other aid money, or by offering more favourable credit terms for the purchase of military equipment from the United Kingdom.

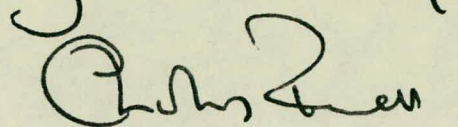
The Prime Minister wants to discuss this in due course with Ministers directly concerned. But it would be better to have a note first. She has commented that she does not want just to be told that military aid to Turkey is impossible but to have a proper study of what the options are and what the costs - financial and political - would be.

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I am copying this letter to Alex Allan (H. M. Treasury),  
Brian Hawtin (Ministry of Defence) and to Trevor Woolley  
(Cabinet Office).

Yours sincerely,  


C. D. POWELL

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

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BF 23/5



MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

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19 May 1988

Dear Charles,

MILITARY ASSISTANCE FOR TURKEY

In your letter of 9th April to Lyn Parker, you sought advice about military aid for Turkey. Many of the points you raised are primarily defence-related, and we have agreed with the ECO that we should provide an initial response.

As the Prime Minister perceived on her visit, there are significant weaknesses in Turkish military capabilities. They lack sufficient ships, modern equipment, and war reserve stocks. Although Turkey invests substantial resources in defence, amounting to 4.7% of GDP, their GDP per capita is the lowest in the alliance and the heavy foreign debt limits the rate of further growth. NATO accepts that increased assistance is needed but the problem is massive. The Turks say they would require an additional \$1bn of aid each year to bring their forces fully up to NATO standards.

Taking the points you raised, the current position is as follows.

Current military aid to Turkey

NATO has long recognised the need for assistance to Turkey, as well as to other nations on the Southern Flank. Very substantial help has been provided by the US and FRG, amounting to more than £300M over the last 12-18 months. The level of their aid reflects their close bilateral links with Turkey (bases and foreign workers respectively) and is often related to sales of defence equipment and to joint commercial and industrial developments. Indeed, a large proportion of US aid is in the form of credits for their Foreign Military Sales scheme. Other NATO countries, including Belgium, Canada and Italy also contribute surplus equipment and carry out equipment support and defence industrial co-operation schemes, though on a much smaller scale than the US and FRG.

Charles Powell Esq  
10 Downing Street





The UK's military assistance to Turkey is small in comparison with that of the US and FRG; in part, this reflects the fact that we do not have a military aid budget. But we have provided some assistance with training, by reducing or waiving charges. We have also been able to gift surplus equipment to the Turkish Armed Forces, for example in 1981 when Turkey received some £3.5m worth of ammunition. In addition, ECGD support is available for defence sales, although the credit terms are markedly less favourable than those available from the US.

Whilst there is no "NATO" military aid programme as such, Turkey has benefited greatly over the years from NATO infrastructure funding. Although the Graeco-Turkish dispute has caused difficulties in recent years, Turkey is a significant net beneficiary; she receives currently about 18% of the total value of the infrastructure programme for a contribution of 0.8%. Much of this expenditure goes on improvements to airfields used by the US, or by the US and Turkey jointly.

#### Use of military aid

Turkey has used military aid to improve and to modernise her forces; without the US and German contributions Turkish forces would certainly be in a much worse state than they are today. Their modernisation programme includes F16 aircraft and new frigates but, in view of the large size of the Turkish Armed Forces, they still possess large quantities of older equipment.

#### Scope for more assistance from US, FRG and NATO

At present, there is little likelihood of a significant increase in assistance to Turkey from other nations. The US has already reduced its planned aid; budgetary problems are likely to lead to further retrenchment. Furthermore, a recent press report indicated that supplies of surplus US equipment (including Phantom aircraft and frigates) which, in recent years, have compensated for reductions in formal aid, will not continue as budgetary pressures make it uncertain what material will be surplus to US needs in future. The Germans also face significant budgetary difficulties and are likely to want to give priority for any additional expenditure to their own forces on the Central Front.

#### A greater UK contribution

There are good arguments for doing more to assist Turkey. Efforts to encourage Turkey to modernise her forces, and to develop her defence industrial base, would enhance security on the south-eastern Flank to the benefit of the Alliance as a whole. It would also be a helpful step in the context of burdensharing and strengthening of the European pillar of the Alliance and would help





to reassure Turkey that her presence in NATO is valued. From the UK's point of view, more assistance would help to develop further our already close relations with Turkey and could lead to increased defence sales. The Defence Secretary recently met the Director of the Turkish Defence Industries Developments Administration, who said that Mr Ozal was keen to expand defence trade with us but that he would like HMG to give British companies greater financial support when mounting sales offers. This squares with the importance Turkey attaches to improving its defence industrial base.

The Defence Secretary considers, however, that direct financial aid is not the most cost-effective form of help. Buttressing Turkey cannot be considered in isolation. Notwithstanding the fact that Turkey's strategic importance and loyalty as an Ally might justify special treatment, increased assistance in the form of direct financial support to Turkey, whether by the UK or by NATO collectively, might well have to be extended to Greece and Portugal also. This suggests that if we were to establish a military aid budget, we would probably have to do so on a substantial scale and that it would be difficult to target it exclusively on the areas in which we wished to provide assistance. We would run the risk of constant pressure from the recipient countries for it to be increased. A military aid budget would also involve diversion of scarce resources towards an area which is not crucial for our overall security. Such expenditure could not be found from within the Defence Budget, save at the expense of much higher priority items with concomitant and adverse implications for our own defence posture.

Nevertheless, the Defence Secretary considers that there are a number of steps that we could take to increase our assistance to Turkey:

- a. A trawl for equipment in British service that might be gifted to the Turks to improve their capabilities in key deficiency areas;
- b. A review of our training programme to identify areas (eg. procurement and language training) where we might be able to assist Turkey;
- c. A review of policy on credit terms to support defence sales to Turkey and on related measures to support industrial co-operation. It is apparent that the Turks are especially interested in both these aspects, and that sales proposals need to involve Turkish industry if they are to succeed. Development of the Turkish defence industrial base would also be a major step towards making Turkey progressively less dependent on military aid in the long term. To some extent, this is already underway and the UK could help in its further development. More





favourable credit terms could well be the most useful form of assistance that we could give to benefit both Turkey and our own industry.

The Defence Secretary would be content to discuss this with colleagues, when convenient. But he considers that the discussion would benefit from a more detailed analysis of the measures that might be taken, particularly in relation to (c) above. As a number of departments have an interest, he suggests that it might be appropriate for the Cabinet Office to take the lead in examining the options and in providing co-ordinated advice to Ministers on the best way ahead.

I am copying this letter to Lyn Parker (FCO), Alex Allan (HM Treasury), Neil Thornton (DTI) and to Trevor Woolley (Cabinet Office).

*Yours sincerely,*  
*Brian Hawtin*

(B R HAWTIN)  
Private Secretary



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10 DOWNING STREET  
LONDON SW1A 2AA

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23 MAY 1988  
CST

From the Private Secretary

23 May 1988

*Dear Brian,*

**MILITARY ASSISTANCE FOR TURKEY**

Thank you for your letter of 19 May spelling out in some detail the position on military aid to Turkey. The Prime Minister would like the further steps to increase our military aid which you suggest to be examined in more detail. She would be grateful if the Cabinet Office would coordinate a fuller study which should make recommendations to Ministers.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office), Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

*Yours sincerely,*  
*C. D. Powell*  
(C. D. POWELL)

Brian Hawtin, Esq.,  
Ministry of Defence.

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MR POWELL

Military Assistance for Turkey

In your letter of 23 May, you asked the Cabinet Office to co-ordinate a fuller study of possible ways, outlined in Mr Hawtin's letter of 19 May, of increasing our military assistance to Turkey. There are no easy answers.

2. Officials have carried out a detailed examination under my chairmanship of the problems confronting Turkey's armed forces, past measures by members of the Alliance (including the UK) to improve her military capability and the possible courses of action now open to the UK. Our report is attached. Its conclusions and recommendations are set out at paragraphs 42 ff.

3. Serious deficiencies exist in Turkish military capability and a great deal of money would be required to bring the Turkish armed forces up to a high level of military effectiveness. A number of NATO countries have provided military aid. If the United Kingdom were to attempt to match the United States or the Federal Republic of Germany, an amount in excess of 30 million per year would be required.



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4. The Ministry of Defence are looking urgently at the scope for "gifting" surplus equipment for Turkey. It is unlikely that it will prove possible to assemble an attractive package, let alone one which will make any useful contribution towards remedying key areas of deficiency. On training, further requirements have yet to be clarified by the Turks. It should be possible to bear, or at least subsidise, the cost of training, up to around £100,000 a year, which would double the level we have so far provided free of charge in the past.

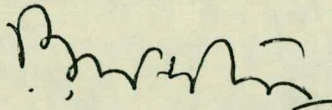
5. We were asked to examine in particular the scope for revising credit terms in support of defence sales, given Turkish complaints that we drive too hard a bargain. Turkey represents our best European market for defence sales and there are some good prospects. Flexibility already exists to vary repayment periods for individual sales. Cases will be judged on their merits, but the cost of softening credit rates, for strategic or political as distinct from commercial reasons, would have to be made good from either the defence or FCO budget; and there is a limit to how far arms sales to Turkey can be subsidised in this way without provoking demands for similar treatment for Turkish civil projects, or for arms exports to other countries. However, ECGD have agreed that cover for arms sales to Turkey should be increased from 60% to 70%. Turkey's Section 2 limit will also be raised from £600 million to £750 million, which should suffice to cover current potential business, although in the longer term it may be necessary to consider recourse to the special arms facility.



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6. We looked afresh at the arguments for and against the creation of a military aid programme for Turkey. To be respectable in presentational terms, a package would have to be of the order of £5-20 million, spread over, say, three years. It would be tailored to the purchase of British equipment, targetted at principal areas of deficiency. But a package of this size, while it would be welcomed by Turkey and within NATO in general, would have little real impact on the problem, while entailing significant opportunity costs. No Department is willing to sponsor a PES bid. Moreover, the precedent would attract other countries (Greece and Portugal) in the Southern Region, which constitutes the area within NATO of the lowest strategic priority for the UK in the views of the Chiefs of Staff. The Defence Secretary having already expressed his reservations about a military aid programme for Turkey, officials doubt whether this would be a prudent course to follow.

7. I am sending copies of this minute and attachment to the Private Secretaries to the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretary of State for Defence, the Secretary of State for Trade and Industry and to Sir Robin Butler.



P J WESTON

Cabinet Office  
22 July 1988



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MILITARY ASSISTANCE FOR TURKEY

THE PROBLEM

The military weakness of Turkey (and also Greece and Portugal) has long been a matter of concern within NATO. Turkey occupies a key position within the NATO Southern Region, an area of considerable strategic interest to the Alliance, because:

- a. she borders on the Soviet Union;
- b. she secures NATO's south-east flank, including the strategically important Eastern Mediterranean (through which one-third of European NATO's oil supplies pass);
- c. she is the link to non-NATO areas of strategic importance - the Middle East and the Gulf;
- d. control of the Turkish Straits and Turkish Thrace would be a prime Soviet military objective.

2. Turkey has the second largest standing army in NATO (542,000 men) and spends \$3 billion or 4.7% of her gross domestic product (GDP) on defence. But her GDP per head is the lowest in the Alliance and she is burdened by heavy foreign debts; and her numerical military strength is offset by the poor equipment of her forces. Deficiencies exist in almost every area, in particular:

- a. low level air defence\*;
- b. anti-tank missiles;



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- c. ground attack aircraft;
- d. mobile communications for the army\*;
- e. artillery;
- f. mobile radars\*;
- g. military helicopters\*;
- h. a fire control system for 35 mm Oerlikon guns\*;
- i. electronics for F-16 aircraft\*.

(Those starred are the subject of UK sales proposals).

3. It would cost at least £200 million, spread over several years, to put right any one of these deficiencies. NATO force goals also call for major improvements across the whole range of military capability, for example: the modernisation of the tank force; the acquisition of 12 anti-submarine warfare (ASW) ships, 11 submarines and 22 mine counter-measures vessels; and the acquisition of 140 F-16s.

4. These military deficiencies are not confined to equipment. Turkey also lacks war reserve stocks, a suitably equipped and trained operational reserve force and the capability to receive air reinforcements.

5. In short, Turkey faces a major task in modernising her armed forces. These deficiencies reflect the fundamental weakness of the Turkish economy in the past, with high inflation, high public sector deficits and the considerable current account deficit, which led Turkey to reschedule her debts between 1979 and 1983. The position has improved considerably in the 1980s; but in the pre-election period in late 1987 there was again a marked deterioration. In a recent report, the International Monetary Fund (IMF) expressed doubts about Turkey's ability to keep to her declared policy and recommended an improvement in her public finances. The IMF welcomed the decision to contain most budget expenditures to 80% below appropriated amounts. It is not clear whether this decision extends to cuts in military expenditure.



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6. It is difficult to reach an objective judgment on how much money is needed to bring the Turkish armed forces up to a standard where they can be confidently expected to carry out their designated NATO roles. The Turks claim that they need an extra \$1 billion a year. This may be a counsel of perfection. But it is clear that, to make a significant impact on Turkey's military capability, considerable additional resources would be required, well in excess of what the wealthier NATO allies collectively could be expected to provide, especially when the problems of Portugal and Greece are also taken into account.

CURRENT MILITARY ASSISTANCE TO TURKEY

7. Turkey is already a major recipient of military aid from a number of NATO countries. The United States (US) and the Federal Republic of Germany (FRG) provide substantial assistance, associated with the purchase or supply of their defence equipment. In either case, this reflects especial bilateral links with Turkey (the US base agreement and Turkish workers respectively). Both countries have formal defence assistance arrangements with her. In 1987, the US provided \$315 million (£192 million) in grants for the purchase of equipment and \$178 million (£109 million) in Foreign Military Sales credits (typically repayable at 3.5% over 20 years); and the FRG provided defence aid (80% cash and 20% refurbished surplus equipment) worth DM130 million (£44 million) over 18 months. Over the past 15 years, the FRG has also provided, among other things, 77 Leopard I tanks, 12,000 motor vehicles and 16 transport aircraft, as well as support for a variety of defence industrial projects (eg tank repair, gun barrel manufacture and submarine construction).

8. Other NATO countries have also been substantial contributors. The Netherlands have donated 24 F-5 fighter aircraft and plan to sell a further 46, to be overhauled before delivery; they have also recently



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announced that they intend to set aside 160 million guilders (£48 million) for assistance to Turkey, Greece and Portugal. Canada has undertaken a 10-year programme worth Can.\$35 million (£16 million) to support Turkish aircraft and equipment manufactured in Canada.

9. It is unlikely that the US and FRG will significantly increase their assistance to Turkey. The US has already reduced its planned aid and budgetary problems are likely to lead to further retrenchment. The FRG also faces budgetary difficulties and military aid may command lower priority in future.

10. Partly in response to US pressure, the Independent European Programme Group (IEPG) is conducting a study of possible equipment procurement assistance measures to Turkey (and to Greece and Portugal) but little new is emerging. The UK has encouraged a market approach, emphasising that the Ministry of Defence (MoD)'s open competition policy provides bidding opportunities for Turkish (and others') industry.

11. More generally, although there is no NATO military aid programme as such, Turkey has benefitted greatly over the years from infrastructure funding. She currently receives about 18% (currently some £160 million) of the total value of the NATO infrastructure programme in return for a contribution of 0.8%. Much of this goes on improvements to airfields used by the US or by the US and Turkey jointly.

12. As there is no UK military aid budget we have not been in a position to offer direct financial support. But military assistance has been provided in two ways:

a. Gifts of surplus equipment

The UK provided approximately £3.5 million of ammunition and other equipment in 1981, although there have been no significant gifts since.



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b. Training

Turkish military personnel attend a variety of courses in the UK, including the Royal College of Defence Studies and the single-Service staff courses. Details are given at Annex A. The cost of training can be met from the Defence Sales Fund (DSF) and Defence Policy Fund (DPF), administered by the MOD. The level of assistance over the past 5 years is as follows:

<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>
£6.5k	£23k	£70k	nil	£58k (to date)

Other possibilities in the pipeline are Rapier training (valued at £45K) and flying training (approximate cost £1.8 million for two students).

In addition, some assistance has hitherto been available under the United Kingdom Military Training Assistance Scheme (UKMTAS), administered by the Foreign and Commonwealth Office (FCO), at a level of £150,000 for each of the last two years (i.e. 1986/87 and 1987/88); but to avoid overlap the FCO and MoD have agreed that from 1988/89 UKMTAS should concentrate on countries outside the NATO area.

POSSIBLE MEANS OF FURTHER ASSISTANCE

13. Against this background, officials have considered how additional military assistance might be provided to Turkey. Possible measures are discussed in the following paragraphs.

Gifting of Surplus Equipment

14. The MOD have carried out a comprehensive review of equipment currently up for disposal or likely to become available in the near future. The outcome of this trawl is set out at Annex B. It would have to be established whether any of the items in question would be of



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interest to the Turks. In some cases, advice is still awaited on the condition of the equipment and the extent and cost of any refurbishment needed to make it operational. It would also have to be established that there was no residual UK use for the equipment.

15. The gifting procedure is straightforward. Gifts of an unusual nature or with a value over £100,000 require Treasury approval and the subsequent laying of a Treasury minute before the House of Commons.

But:

- a. if it is to be gifted, surplus equipment must be militarily useful. This rules out items which have come to the end of their lives and are unlikely to be capable of refurbishment for further operational service;
- b. where items are militarily useful, forgone receipts from sales will have an opportunity cost for the defence budget. This would be compounded if equipment required expensive refurbishment to bring it up to operational standards;
- c. from the recipient's viewpoint, the donation of obsolete and unreliable equipment, especially of a type not already in service with the recipient, would impose high support costs;
- d. it could be difficult in some instances to provide the training and maintenance support that the recipient would need if the equipment in question was not already in service.

16. It is likely, therefore, that the range of items that would be potentially suitable for Turkey will turn out to be fairly narrow. A similar trawl mounted on Turkey's behalf in 1985/86 produced a list of



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obsolete items which the Turks rejected. Any offer would have to stand comparison with the standard of military equipment accepted by Turkey from other NATO donors.

Training Assistance

17. The MOD have consulted the Defence Attache (DA) in Ankara on training courses in which Turkey might be interested. The DA's advice is that English Language training is a prime requirement. The purpose of the Defence School of Languages (DSL) is to prepare students who are to undergo specialist MOD training. There is at present no spare capacity to provide tuition for Turkish students: places could be provided only by cutting down on present courses (with knock-on effects on the further training) which, at least in the short-term, would entail reneging on existing commitments. It would otherwise be necessary to provide additional staff at the DSL, or for English language instructors to go out to Turkey; or even to pay for Turkish students to attend commercial language schools. No MOD funds are available for this; nor can staff be provided.

18. Other possible courses of interest to the Turks are pilot training, helicopter ASW, naval damage control, command courses at Army Arms Schools and project management training. The Turks are being encouraged to put forward firm bids. Until they do so, the MoD cannot be sure that Turkish requirements can be satisfied or that the cost can be met from the DPF. For example, pilot training is very expensive per individual and it might make greater impact to spread any financial assistance over a larger number of students on less costly courses.

19. The costs of MOD training unrelated to sales can be met through the DPF. (The DSF exists to subsidise the cost of training associated with sales.) The DPF is not a fund as such, in that money is not paid direct to the beneficiary, but rather a scheme for providing free, or at reduced rates, military assistance for which the MOD would otherwise



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have to charge. These concessions are designed to help countries with whom, inter alia, we have specific defence commitments or links. Among NATO countries, Turkey, Greece and Portugal are eligible for assistance from the Fund under this criterion. As the Fund operates on the basis of receipts forgone, it cannot be used for the supply of military equipment. A fuller note on the Fund is at Annex C.

Military Aid Budget

20. Other NATO countries, notably the US and the FRG, provide direct financial subventions for the purchase of their military equipment. In the UK's case, there is at present no available means of following suit. As said, the DPF and DSF operate on the basis of forgoing receipts; and UKMTAS, which is now wholly restricted to countries outside the NATO area, although involving the actual disbursement of money, can be used for the purchase of equipment only for direct training purposes.

21. The case for a UK military aid budget, which might assist not only the poorer NATO nations but also countries outside the NATO area, has been examined on a number of occasions. The idea has previously been rejected by the MoD on two counts:

- a. such a fund would have to be on a substantial scale to have any significant impact; given the pressures on the defence budget, the opportunity costs for the existing programme could not be afforded.
- b. Since the creation of such a fund would inevitably become public there would be a risk of generating ill-will if some countries felt that others were being treated more generously.



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22. On the first point, any offer to Turkey would have to be pitched at at least £5-20 million if it was to have some impact in presentational terms. Annex D illustrates how such sums might be used. Even this amount could be found only at the expense of some other item in the defence programme. It is questionable whether it would be right to devote scarce resources towards making good deficiencies attributable in part to mismanagement of the Turkish economy. The Chiefs of Staff have taken the view that, within NATO, the Southern Region (including Turkey) must be considered of the lowest strategic significance to the UK. Even £5-20 million are a mere drop in the ocean compared with the large amount of aid that Turkey has received from the US and FRG, let alone the \$1 billion that she reckons she needs each year. Given especially the pressures on the defence budget, there are strong arguments that the UK should devote resources to boosting its own military contribution to NATO. There is also the danger that creation of this precedent would make it more difficult to resist similar proposals in future.

23. As for the second objection, any limitation of the countries eligible to receive assistance will be resented by those who are excluded. One possibility would be to restrict aid to the poorer NATO countries, on the grounds that such aid would be in our direct security interests by virtue of our common membership of NATO. Such assistance would earn the UK credit not only with the countries concerned but also within NATO generally. But this would require an even larger sum, with a correspondingly greater opportunity cost. The cheapest option, therefore, would be to introduce a specific exercise of limited duration directed solely at Turkey. There is a precedent for this in the package, funded for 5 years from independence in 1981, of £6 million for the purchase of equipment for the Belize defence force; similar aid has been provided in the past also to the Gambia and Mozambique. A Turkish programme might run for three years and be confined to the purchase of British equipment for their armed forces. But Greece and Portugal might well cavil at their exclusion from its scope. There must also be a risk



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that, even though it were made clear at the outset that an aid programme would run for only a set period, it might be difficult for political reasons to terminate it when the time came.

24. If it were nevertheless felt that some form of direct aid should be introduced for Turkey, two questions would need to be addressed: the Vote on which the actual expenditure should fall; and the original source of the money. On the first, there is no defence vote on which cash assistance to a foreign government can properly fall. In the case of the Belize package (and the assistance to the Gambia and Mozambique), the expenditure was carried on FCO Votes. However, a programme of this kind for Turkey, with a strategic objective, would be of a different and unprecedented nature, and might in Parliamentary terms require a new subhead. This question would have to be further explored. In any event, it would be for the MOD to advise on how the programme should be administered.

25. The question of the ultimate source of any funding is more problematic. The defence budget is now 7.5% lower in real terms than it was in 1985/86 and difficult decisions are having to be taken to bring the programme into line with resources. The MoD could not support an aid programme if this had to be funded at the expense of other items in the defence programme. The same applies to the FCO: the FCO budget is by comparison very small and, being essentially designed to finance the running of the Diplomatic Service, is not suited for military programmes of this kind; and it would be impossible to find sums of money of the order suggested without prejudice to items of higher priority. The only alternative (which the Treasury would not favour) would be an increase in PES provisioning. In that event a Departmental sponsor would have to be found.



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Overseas Aid Programme

26. Turkey receives aid under the programme administered by the Overseas Development Administration: some £300,000 a year in technical co-operation; and more significantly, assistance (1985: £10 million) from the worldwide Aid and Trade Provision (ATP) budget, whereby ATP grants and export credits are made available in support of British contracts. However, it has long been the policy that the overseas aid programme should not be used for military purposes (including the construction of facilities for the manufacture of military equipment, let alone its purchase). It would not be possible to count such expenditure internationally as aid. Diversion of money away from the civil aid programme (by PES transfer) into military assistance would aggravate existing pressures on the aid budget; and any reduction in the total aid programme would be visible and likely to attract public criticism. (As a proportion of gross national product (GNP) the aid budget has fallen against the United Nations target for aid of 0.7% of GNP to 0.28% in 1987, although (as Ministers have pointed out) following last year's PES round the aid programme is planned to grow, albeit modestly, in real terms.)

DEFENCE SALES AND INDUSTRIAL CO-OPERATION

27. Turkey is a substantial importer of defence materiel, reflecting not only the obsolescence of her forces' equipment but also the limitations of her defence industry. Traditionally the US and FRG have been major suppliers of equipment, both new and secondhand (largely as a direct consequence of their military assistance policy). But during the past five years UK industry (led by British Aerospace (BAe) with two orders for Rapier worth £290 million) has made substantial inroads and Turkey is now our largest European market for defence exports. The most promising prospects are set out at Annex E.

28. The Turkish Government attaches great importance to the establishment of joint ventures with overseas companies in order to



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broaden Turkey's industrial base and for her to acquire new technologies. A Defence Industries Development Administration (DIDA) was set up in 1985 to undertake technical, financial and industrial evaluation of major projects. DIDA also provides investment incentives and has an annual budget of £500 million. The extent to which British companies are able to respond to the Turkish desire for joint ventures will largely determine their future success. The major British sales proposals listed at Annex E offer local manufacture and some transfer of technology.

29. It remains to be seen how successful British industry will be, given the competition. Moreover, there may in practice be a limit to the rate at which Turkey can absorb the joint ventures that would be entailed. DIDA indicated to ECGD in late May of this year that they would be unlikely to be capable during the remainder of 1988 of processing more than two contracts (those specified in paragraph 34 below).

30. The Turkish Prime Minister has indicated that he would like to buy more from the UK, but that, in the face of military aid from the US and FRG, the UK would have to offer some financial support to facilitate this. However, in the MoD's view the Turkish market cannot be fully exploited because UK companies do not as a general rule enjoy the advantages (such as softer interest rates) available to US and FRG competitors. The following paragraphs examine the existing credit regime and the scope for amending it.

Previous ECGD support for Turkey

31. There has been heavy ECGD support for exports to Turkey in recent years. Substantial claims have had to be paid as a result of three separate rounds of debt rescheduling since the 1950s. More recently, as



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a result of the rescheduling of both short-term and medium-term maturities during the period 1978-83, claims of over £100 million were paid which will not be fully recovered until 1992.

32. Since resuming medium term cover in 1983, ECGD has supported capital goods and project business in Turkey amounting to some £570 million in contract value. This includes three defence equipment contracts:

		<u>Contract Value</u>
Sea Skua missiles		£ 17.5m
Rapier defence system	phase 1	£145.5m
	phase 2	£160.8m.

Section 2 Limit

33. The Export Guarantees Committee has recently agreed an ECGD Section 2 Market Limit of £750 million as being the maximum exposure that ECGD should take on Turkey at present. The current utilisation is as follows:

<u>ECGD Maximum Exposure</u>		
	<u>£m</u>	<u>£m</u>
Market Limit		750
Firm commitments	439	
Reservations	<u>158</u>	
	597	
Balance available		153

(Reservations include £115m for the Istanbul Expressway but no provision for the Third Bosphorus Bridge, which has almost certainly been postponed for a year or so.)



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34. Of the sales prospects listed at Annex E, the following contracts, showing ECGD's maximum liability (on the assumption that ECGD guarantees only a reduced percentage of the contract value), could be placed during 1988:

	<u>£m</u>
HF radios	80
Optical sights for APVs	<u>40+</u>
	120+

One or two large civil projects may also proceed.

35. Experience suggests that a ratio not exceeding around 5:1 (indications<sup>1</sup> to available cover) should be maintained. With a balance of just over £150 million of cover available, this would mean indications up to approximately £750 million could be made or maintained in respect of potential civil and military business. Demand for cover could exceed this level and it may therefore be necessary to consider cover for some defence business under the £1 billion arms facility.

Extent of cover

36. Traditionally credit terms for defence sales are more restricted than for civil equipment sales of a comparable size. Credit is generally restricted to 75% of the contract price (compared to 85% for civil) and the repayment period to five years (compared with 8.1/2 years). But where there is foreign competition better terms (eg 90% over ten years) have been agreed for defence sales in the past. Agreement to a greater percentage of ECGD cover or to longer credit increases the level of ECGD's monetary exposure (Departmental Maximum Liability (DML)) on a particular piece of business. (For example, on a £100 contract ECGD's DML (including interest) might be increased from around £100 to around £115 if the percentage of cover were raised from

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<sup>1</sup> i.e. where ECGD states the terms on which it will support business for which UK exporters are tendering, but without giving any commitment to provide cover.



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75% to 90%, and to £135 if ten years' credit were additionally agreed.) Any improvement in the terms of cover for a defence transaction would leave less cover available for other business, defence or civil, within the individual market limit for the country concerned.

37. In Turkey's case, because potential demand for cover habitually exceeds the cover available, ECGD requires additional risk sharing on contracts of over £15 million. As a result, ECGD cover for defence contracts has normally related to only some 60% of the contract price, leaving the remaining 15% of the credit proportion to be carried by exporters and banks (and the 25% payable by delivery to be paid in cash also to be financed commercially). This compares with the 70:30% Government - private sector split which applies to Turkish civil projects.

38. It has now been agreed to treat arms sales to Turkey on the same basis as civil contracts for the purposes of risk-sharing and to raise the percentage of ECGD cover to 70%. ECGD consider that it would be unrealistic further to soften the terms offered on arms sales to Turkey in isolation, as the UK defence industry would expect similar arrangements to apply elsewhere (as would other potential customers). By the same token, it would be undesirable to allow arms sales to Turkey to be accorded preferential treatment over civil sales in respect of risk-sharing.

Interest rates

39. ECGD credit for Turkey currently available for arms sales is typically 9.15% over five years. Although arms sales are not covered by the OECD Consensus on export credit competition, in practice ECGD and most of its competitors usually apply Consensus interest rates to arms sales, where these are not explicitly subsidised as they are by the US and FRG. The MoD believe that, if UK industry is to compete on a more equal basis with the US and FRG, more generous rates would be necessary.



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Each 1% reduction in the interest rate would imply an additional subsidy cost equivalent to about 4% of the value of the contract. This would fall on ECGD's interest make-up account. This Vote is not cash-limited. In the present case, where the motives for support were essentially strategic and military rather than commercial, the Treasury would require the costs to be met either by the MoD or by the FCO (in which event the departmental objections outlined in paragraph 25 above would apply).

Availability of cover

40. The current amount of cover under the ECGD market limit for Turkey is probably sufficient to allow support to be given for current potential business. If it were not, cover could be considered under the special arms facility. Some of the more distant prospects (for example, the sale of Westland helicopters or even Tornado) are however too big to be covered in this way; the question of cover for these is unlikely to be a serious issue at present.

41. The current position on the arms facility is a potential utilisation of £430 million for the sale of Tornados to Jordan though this may change again in the light of further information. The Chief Secretary to the Treasury has made it clear that his reluctant approval of the £1 billion Section 2 allocation was on condition that Ministerial colleagues accepted his presumption that the allocation would last for three years, but that it could be reviewed before the end of that period in exceptional circumstances. He also proposed that if more than one-third were used by the end of the first year, there should be a temporary stop on new commitments in the hope of containing the total risk within the new ceiling, and of spreading out the commitments over at least three years. This issue is due to be discussed at a meeting of Ministers on 26 July under the chairmanship of the Foreign and Commonwealth Secretary.



## CONCLUSIONS

42. Considerable sums will need to be spent if the Turkish armed forces are to be modernised and brought up to a fully effective standard. Given especially Turkey's strategic importance, it is in the Alliance's interest that the effectiveness of her military capability should be improved. Some NATO countries have made major contributions of military aid, in cash and in equipment, to this end.

43. UK assistance to Turkey in the past has been modest. At present it runs to no more than £60,000 a year in the form of abatement of training charges and £150,000 in grants from UKMTAS. The last donation of military equipment, to the tune of £3.5 million, took place in 1981.

44. It is unlikely that it will be possible to assemble a package of surplus equipment that will be sufficiently attractive to the Turks (who rejected an offer only three years ago on the grounds that the equipment in question was obsolete and of no practical use to her armed forces) or that can be directed to areas of major deficiency. But the MoD will seek to clarify as soon as possible which of the items listed at Annex B will definitely become available for gifting, the extent to which they will need to be refurbished and the cost; thereafter, they will explore through the DA in Ankara whether any of the items identified will be of interest to Turkey. In the light of this, the MoD will consider, in conjunction with the FCO and Treasury, whether an offer should be made and the potential implications for the defence budget of forgoing the associated receipts.

45. Turkey has in the past received a reasonable amount of training at our expense. There is no formal allocation for Turkey but in practice she might expect to receive up to around £100,000 of training free of charge or at reduced rates. Although there is no apparent scope for providing English language training at present, the MoD will keep the



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question under review. But it should be possible to continue to provide specialist training and to subsidise some of this. The problem is as much one of identifying suitable courses as of funding. The MoD will seek to establish precisely what training Turkey requires and the extent to which it can be provided and costs defrayed.

46. The volume and value of defence exports to Turkey have risen considerably in recent years and there are some promising prospects. Preparedness to participate in joint production ventures in Turkey will be crucial to securing contracts. British firms are aware of this and have indicated willingness to take part. There have been Turkish suggestions that we should soften the terms of our export credit regime. There is flexibility to vary the credit period in certain circumstances and individual sales proposals will continue to be assessed on a case-by-case basis. ECGD propose in future to raise the proportion of ECGD cover for arms sales to Turkey from 60% to 70% of contract value. But the Treasury would expect the costs of any softening of interest rates, if made for non-commercial reasons, to be met ultimately by the MoD or the FCO.

47. It would be possible to devise a presentationally respectable military aid package ranging from £5-20 million spread over three years and specifically tied to the purchase of British equipment. But a sum of this order, even if precisely targetted towards a key deficiency, would achieve very little in practical terms. Moreover, the Southern Flank is not an area of strategic importance to the UK nationally, and our defence planning reflects this. Provision of aid to Turkey might prompt similar demands from Portugal and Greece, also relatively impoverished Southern Region countries. The Turks themselves might even ask for more; and it might be difficult to end a programme, once started. Given that economic mismanagement is in part responsible for Turkey's financial plight, any decision to donate military aid to Turkey, although it would inevitably earn the UK kudos, both with Turkey and within the Alliance generally, would need to be carefully weighed.



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Officials doubt whether this would be a prudent course. The Defence Secretary has already expressed reservations about any such proposal (Mr Hawtin's letter to Mr Powell of 19 May).

48. If Ministers were to decide that assistance should be provided to Turkey, they would need to consider whether offsetting savings should be sought either from the defence budget or from the FCO budget; in either case, high priority items would have to be displaced. (It would be inappropriate to divert funds from the ATP programme for this purpose.) It would be necessary also for there to be a Departmental sponsor, and for a suitable vote to be found to carry the expenditure.

RECOMMENDATIONS

49. Ministers are invited:

a. To note that:

i. the MoD will seek to clarify as soon as possible which of the items listed at Annex B will definitely become available for gifting, the extent to which they will need to be refurbished and the cost; explore subsequently through the DA in Ankara whether any of the items identified will be of interest to Turkey; and thereafter consider, with the FCO and Treasury, whether an offer should be made and the potential implications for the defence budget;

ii. the MoD will consider further the scope for providing English language training, although no resources are at present available;



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- iii. the MoD will seek to clarify, through the DA in Ankara, Turkish requirements for specialist training; and thereafter consider the scope for providing the training and for making it available free of charge or at reduced cost;
  - iv. sufficient ECGD cover should be available for existing defence sales prospects;
  - v. the proportion of ECGD cover for arms sales to Turkey has been increased from 60% to 70%;
  - vi. the credit terms for individual sales will continue to be assessed on a case-by-case basis and flexibility exists to vary the credit period;
  - vii. the costs of any softening of interest rates would have to be met.
- b. To agree that the question of a military aid budget for Turkey should not be pursued.

Cabinet Office

22 July 1988



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ANNEX A

CURRENT TURKISH ATTENDANCE AT UK COURSES

a. Navy

- |     |  |                  |
|-----|--|------------------|
| (1) | NATO Staff Officer                     | HMS Nelson       |
|     | Naval Control of Shipping Acquaintance |                  |
| (2) | Maritime Tactical Course               | HMS Dryad        |
| (3) | NATO Maritime Advanced EW Course       | HMS Dryad        |
| (4) | 1 Principal Warfare Officer            | HMS Dryad        |
| (5) | Speech Security Equipment              | HMS Dolphin      |
|     | Maintainers Course                     |                  |
| (6) | RN Staff Course and Pre-Course         | RN Staff College |
| (7) | Attachment of 3 Officers to            |                  |
|     | Flag Officer Sea Training              |                  |

b. Army

- |     |                                    |            |
|-----|------------------------------------|------------|
| (1) | Army Staff Course and Pre-Course   | Camberley  |
| (2) | Infantry Platoon Commanders Course | Warminster |
| (3) | Officer Training                   | Sandhurst  |

c. Air Force

- |                              |           |
|------------------------------|-----------|
| Advanced Staff Course        | Bracknell |
| (including preparatory term) |           |

d. Miscellaneous

- RCDS (one student in 1988, one place  
offered in 1989)



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1984-5		1985-86		1986-87	
Students	St. Days	Students	St. Days	Students	St. Days
17	215	17	175	50	383



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ANNEX B

FORECAST OF DISPOSALS OF SURPLUS DEFENCE EQUIPMENT

Navy

- HMS Fox. Coastal Survey Vessel. A specialised vessel unlikely to be of much interest to Turkey. Could be worth up to £4 million (including spares).
- HMS Achilles. Leander class frigate. Likely to come up for disposal next year but Pakistan has recently bought two sister ships and is likely to be interested in bidding. Informal indications given at Ministerial level to Pakistan that offers would be considered. Worth up to £15 million (including spares).
- Certain naval armaments including 4.5 inch shells (without cartridges and fuses), anti-submarine mortars, mines (without launchers) and IKARA anti-submarine missiles (without magazines and launchers).
- Various general naval stores eg power units, binoculars and metering equipment. Most in need of repair.

Army

- 24 Ferret escort cars. Only 15 are runners and 12 of these are of older Mark I type. Remainder need repair. Would normally expect to find a market (total perhaps £100 thousand) but not for further military use.
- Small number of Stalwarts (6 wheel all-terrain cargo trucks). Advice awaited on condition.
- Over the next 5 years a number of equipments may become available which are either in service with the Turks or where support costs are unlikely to be significant. The following are possibilities:



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- a. M110 203 mm SP howitzers and ammunition;
- b. Carl Gustav anti-tank weapons;
- c. 9 mm sub-machine guns;
- d. 2 inch mortars;
- e. M19A1 Armalite rifles (small quantities);
- f. 7.62 mm Sniper rifles (small quantities).

It would be necessary before final disposal to confirm that there was no residual UK use and that the equipment had a reasonable amount of useful life. No firm commitment can therefore yet be given.

Air Force

- About 30 sets of ARI terminal radar. Could provide limited number of operational sets with the rest as spares. But further study needed to establish in-service support needed to maintain a respectable number of these old radars.
- As in the case of Army equipment there are several items in the disposal pipeline which might be suitable for offer to Turkey, but much will depend on whether there is a residual UK use and on the condition of the equipment. The possibilities include:
  - a. Practice bombs.
  - b. Various aircraft engines.
  - c. Management radios. Question mark over continuing commercial support.
  - d. Helicopter airframe spares. For Alouette.



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ANNEX C

THE DEFENCE POLICY FUND (DPF)

1. The DPF is not a true "fund", but a scheme for providing free, or at reduced rates, military assistance for which we would otherwise have to charge. Its aim is to use concessions on charges for Loan Service Personnel (LSP) and training to help countries with whom we have specific defence commitments or links; where we enjoy valuable defence facilities; or where our strategic interests might cause HMG to respond positively to a request for defence assistance. All three "less developed" NATO countries (Turkey, Greece and Portugal) are eligible for assistance from the DPF. The Fund also helps to defuse criticism of the high level of UK training charges. However, as it is based on receipts forgone it cannot be used for the supply of equipment, save when specifically necessary to support training (e.g manual, visual aids).

2. Activities qualifying for DPF assistance include attendance on UK-based training courses, the provision of LSP or short-term training teams, or consultancy visits. Assistance is devoted to specific projects designed to improve discrete areas of a country's defence capability rather than given as a general subsidy. The annual total ceiling for DPF assistance is £5 million. Total subventions in 1987/88 were £4.43 million of which Turkey, Greece and Portugal received nil, £21K and £6K respectively.

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POSSIBLE MILITARY AID PACKAGE TO TURKEY

£5 million

1 Lynx transport helicopter (without spares) or  
1 Rapier launcher, 1 optical tracker, 1 radar tracker and  
100 missiles or  
5,000 light support weapons, or  
10,000 SA80 rifles, or  
1,500 radios.

£10 million

2 Lynx transport helicopters (without spares) or  
3 Rapier launchers, 3 optical trackers, 1 radar tracker and  
250 missiles or  
10,000 light support weapons or  
20,000 SA80 rifles or  
3,000 radios.

£20 million

4 Lynx transport helicopters (without spares) or  
9 Rapier launchers, 9 optical trackers, 2 radar trackers and  
250 missiles or  
20,000 light support weapons or  
40,000 SA80 rifles or  
6,000 radios.



ANNEX E

CURRENT PROSPECTS FOR DEFENCE SALES TO TURKEY

1. HIGH FREQUENCY SINGLE SIDE BAND RADIOS (HFSSB)  
Company: Marconi (Scimitar) and Plessey (System 4000)  
Value: £200 million  
Comment: Contract expected to be placed later in the summer
2. FIRE CONTROL SYSTEM (PROJECT EAGLE)  
Company: Racal  
Value: £150 million  
Comment: Netherlands may well win contract, following recent aid package
3. RAPIER (LASERFIRE)  
Company: British Aerospace  
Value: £180 million  
Comment: Prospects uncertain
4. 3D RADARS FOR AIR DEFENCE  
Company: Plessey and Marconi  
Value: £250 million  
Comment: Negotiations at early stage



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5. ZEUS (ELECTRONIC WARFARE) FOR F-16

Company: Marconi Defence Systems  
Value: £250 million  
Comment: US will probably win contract

6. APC NIGHT SIGHTS

Company: Pilkington PE  
Value: £40 - £100 million  
Comment: As for 2. above

7. HELICOPTERS

Company: Westland  
Value: £3 billion  
Comment: Very long-term prospect. Turkey may be unable to afford





10 DOWNING STREET  
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From the Private Secretary

MR. WESTON,  
CABINET OFFICE

CH/EXCHEQUER	
REC.	25 JUL 1988
ACTION	CST
COPIES TO	

MILITARY ASSISTANCE FOR TURKEY

Thank you for your minute of 22 July covering the fuller study by officials of possible ways of increasing our military assistance to Turkey. The Prime Minister accepts, with some reluctance, that the modest proposals summarised in paragraphs 4 and 5 of your minute are the most we can do and that we cannot create a military aid programme for Turkey. She is grateful for the work which has been done.

I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Defence, the Secretary of State for Trade and Industry and to Sir Robin Butler.

CHARLES POWELL

25 July 1988

[Amendments to be placed in place]