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PART A

Part A.

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Begin : 29/1/88.  
Ends : 27/6/88.

  
PO -CH /NL/0353  
  
PART A

Chancellor's (Lawson) Papers:

**BRITISH FINANCIAL  
SUPPORT FOR THE BUILDING  
OF A THIRD BOSPHORUS  
BRIDGE IN TURKEY**

DD'S: 25 Years



22/11/95.

PO -CH /NL/0353  
PART A

FROM: P E DENISON  
DATE: 29 January 1988

1. MR P G F DAVIS  
2. CHIEF SECRETARY

cc: Chancellor  
Economic Secretary  
Mr Burgner  
Mr Mountfield  
Mrs Case

### THIRD BOSPHORUS BRIDGE

Mr Michael Fallon has asked to speak to you on Monday 1 February about financial support for a contract to build the third Bosphorus Bridge. As MP for Darlington, he has a constituency interest; the UK firm's plant in Darlington would benefit from the increased employment generated by the contract.

#### The UK Firm

2. The firm is Cleveland Bridge and Engineering Limited (CBE), a subsidiary of the Trafalgar House Group. The same firm also built the first Bosphorus Bridge in 1973 and bid for the second, but lost it to the Japanese in 1985 in controversial circumstances (see paragraph 9 below).

#### The Contract

3. The project is to build a toll bridge over the Bosphorus. The first bridge connected with Istanbul. The second bridge (still under construction by the Japanese) is intended to cater for long-distance Asia-Europe traffic bypassing Istanbul. The third bridge, now proposed, is primarily to relieve pressure on the first. Bids have to be submitted by 8 February.

4. The total contract value is almost £200 million, of which the UK content would be just over half. It is to be implemented on the Build Own Operate Transfer (BOOT) basis, under which CBE and other participants (including a Turkish construction firm, the Turkish Government and the Municipality of Istanbul) would

establish a company to build and then manage the project for a period of perhaps 20 years before relinquishing control to the Turkish authorities.

### Financing

5. CBE have requested HMG support in the form of a mixed credit, involving a minimum of some £30 million in aid from the Aid and Trade Provision (ATP) plus ECGD cover on the balance of the UK content. In addition, the project would also need to attract private sector funding. Loans would be repaid from the tolls on bridge users.

6. This is a large project in relation to the ATP budget, but the drawings would be fairly evenly spread over the next 4 years and could be accommodated within the programme. But it is, of course, a question of priorities in the allocation of the limited amount of ATP available and you might emphasise this aspect to Mr Fallon.

7. ECGD cover is similarly available. The market limit can accommodate the £125 million (DML) cover required because GKN have now lost the contract for Warriors, cover for which you agreed could be made available by an increase in the market limit recently. But it would use up all the present available cover when there is a substantial amount of other business in prospect. We will review the market shortly when there is evidence that Mr Ozal's measures to restore the earlier economic improvements are in place and are seen to be effective.

8. Discussions with the company are under way. We are very close to telling them that the necessary indication of cover can be given (subject as usual to the satisfactory conclusion of project details).

### Background - The Second Bridge

9. CBE, having built the first bridge, had thought themselves in a strong position to negotiate a contract for the second bridge and sought a mixed credit package in support of their efforts.

There were difficulties because Turkey's market limit was fully committed at the time. There was also some confusion and suspicion about the nature of the Japanese involvement. The CBE bid was not, in fact, price competitive, but CBE maintain that, if HMG had reacted more quickly to their request, they would have been better placed. The tendering became a highly charged issue, eventually involving the Prime Minister's support for the UK bid, before the Japanese eventually took the contract.

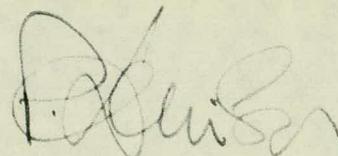
#### Prime Minister's Visit to Turkey

10. The Prime Minister will be visiting Turkey on 6-8 April. We assume she will want to be able to promote this project.

#### Line to Take with Mr Fallon

11. By the time of your meeting, CBE may already have been told that ECGD can give an indication of cover and that ATP can be offered to support their bid. I will report the position to you on Monday morning.

12. But if not, we suggest you listen to Mr Fallon's representations and note what he says on the basis that final decisions have not yet been taken, but the project is under active and urgent consideration. We need to be satisfied about the project and the financing arrangements and about the priorities in deploying the limited resources available for supporting firms in this way. The Departments concerned (DTI, ODA, ECGD and ourselves) are giving high priority to the consideration of this project.



P E DENISON

*PE*

FROM: P E DENISON  
DATE: 1 FEBRUARY 1988

CHIEF SECRETARY

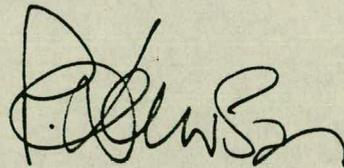
cc Chancellor  
Economic Secretary  
Mr Burgner  
Mr Mountfield  
Mrs Case  
Mr P G F Davis

**THIRD BOSPHORUS BRIDGE**

In my minute of 29 January I said I would let you have an up-date on this contract before your discussion with Mr Fallon.

2. DTI met Trafalgar House/Cleveland Bridge and Engineering Ltd last Friday 29 January. The discussion went very well.

3. The company has been told that ECGD cover and ATP are available to support its bid. The precise terms of the ECGD cover are now being formulated. The company is pleased with the support offered. Prospects now depend on the success of the bid and the company's subsequent detailed project negotiations with the Turkish authorities.



P E DENISON



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REC.	22 FEB 1988
ACTION	Mr MOUNTFIELD
COPIES TO	S ST, EST SIC G. LITZGER, Mr LANKESTER, Mr H.P. EVANS, Mr PG DAVIS

PP

Foreign and Commonwealth Office

London SW1A 2AH

22 February 1988

Dear Alison,

We understand that Mr Yusuf Ozal, brother of the Turkish Prime Minister and (as senior Minister of State) No 2 in his Government, will be visiting London to attend the opening of a Turkish industrial exhibition at the Barbican on 18 April; and would like to call on one or more appropriate senior Ministers during his visit, either on 18 or 19 April.

Mr Yusuf Ozal is the key decision-taker on Turkish economic policy, including major civil development projects, thus his sphere of responsibility is of major importance to our exporters, contractors and bankers. In view of his position, his importance to us in the trade field and the timing of his visit so soon after the Prime Minister's to Turkey (6-8 April), the Foreign Secretary believes a call by Mr Ozal on the Trade and Industry Secretary would be both appropriate and likely to further our political and commercial relations with Turkey. He hopes there may be a convenient slot in Lord Young's diary for such a call. We shall be recommending that the Governor of the Bank of England should also receive Mr Ozal during his visit.

I am copying this letter to Alex Allan in view of the Treasury's interest in Turkish economic policy.

Yours ever,

(A C Galsworthy)  
Private Secretary

Alison Brimelow  
PS/Lord Young  
Department of Trade  
and Industry

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✓  
26/2

CH/EXCHEQUER	
REC.	26 FEB 1988
ACTION	Mr MOUNTFIELD
COPIES TO	CST. EST. SIR G. LITTIER, Mr LANKESTER, Mr H. P. EVANS, Mr P. G. DAVIS.

*[Handwritten initials]*

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

25 February 1988

*Dear Sir,*

**PRIME MINISTER'S VISIT TO TURKEY**

We have had quite a number of press enquiries whether the Prime Minister intends to make a major effort to secure the contract for a third Bosphorous Bridge for a British company during her visit to Turkey. The matter seems bound to come up and the Turks will no doubt regard it as an opportunity to squeeze us as hard as possible on terms and price. I think we are going to need a very carefully worked out position, with a clear idea of just how far the Prime Minister should go in order to secure the contract (if discussions reach this point). I should be grateful if a note could be prepared on this point, in conjunction with DTI and Treasury in time for Ministers to consider it collectively if need be well ahead of the Prime Minister's visit.

I am copying this letter to Alison Brimelow (Department of Trade and Industry) and to Alex Allan (HM Treasury).

*Yours sincerely,  
Charles Powell*

(CHARLES POWELL)

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

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# dti

the department for Enterprise

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

A C Galsworthy Esq  
Private Secretary to the  
Secretary of State for Foreign and  
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Foreign and Commonwealth Office  
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Your ref  
Date 1 March 1988

CH/EXCHEQUER	
REC.	01 MAR 1988
AC	Mr MOUNTFIELD
COPY TO	EST EST SIR G. LITTLER, MR LANKESTER, MR H.P. EVANS, MR P.G. DAVIS.

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Dear Tony,

**VISIT OF MR YUSUF OZAL**

Lord Young has seen your letter of 22 February and agrees that a meeting would be useful. May I leave it to you to inform the Turkish Ambassador that a meeting at 11 am on 19 April would be convenient?

I am copying this letter to Alex Allan.

Yours sincerely  
  
MARGARET BELL  
Private Secretary



CH/EXCHEQUER	
08 MAR 1988	
Mr MOUNTFIELD	
CST	
EST	
Sir G. LITTLER	
Mr LANKESTER	
Mr H.P. EVANS	
Mr P.G. DAVIS	

Foreign and Commonwealth Office

London SW1A 2AH

8 March 1988

PW P

Prime Minister's Visit to Turkey:  
Third Bosphorus Bridge

I had hoped by now to be in a position to let you have a fully argued note in response to your letter of 25 February about the handling of Cleveland Bridge and Engineering's efforts to secure the contract for a third Bosphorus bridge in the context of the Prime Minister's visit to Turkey. Officials of the FCO, Treasury and DTI have already put a lot of time and effort into production of such a note. But the question of how much ECGD cover will be available for this and other projects in which British firms are interested is clearly crucial. We cannot give a definitive answer until the current Market Review initiated by ECGD is completed. This is now before EGC, but the process will not be complete until next week.

In the meantime your Press Office will wish to have a steer on how to handle enquiries. Our advice, with which DTI and Treasury officials agree, is that we should make clear that Bosphorus III is only one among several projects in which British firms have an interest, in both the civil and defence fields; that the Prime Minister will be batting for British industry in general and will use her visit to support their efforts to achieve an increase in our exports to Turkey across the board; and that we see no linkage at all between British interest in Bosphorus III and other projects and Turkey's application for membership of the European Community (a point which has been a feature of advance Turkish media comment on the visit). I hope that your press people will find this line adequate, pending the full briefing we shall send you in the course of next week.

I am copying this letter to Alison Brimelow (Department of Trade and Industry) and to Alex Allan (HM Treasury).

*Yours ever,*  
*L Parker*

(L Parker)  
Private Secretary

C D Powell Esq  
10 Downing Street

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FOR ACTION

*[Handwritten signature]*



Foreign and Commonwealth Office

London SW1A 2AH

29 March 1988

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REC.	29 MAR 1988 <i>29/3</i>
ACTION	MR MOUNTFIELD
COPIES TO	CCTEST
	SIR GLITLER
	MR LANKESTER
	MR H P EVANS
	MR PG DAVIS.

*Dear Charles,*

Prime Minister's visit to Turkey: Third Bosphorus Bridge

Further to my letter of 8 March, I enclose a note, agreed at official level with the DTI, ECGD, MOD and Treasury, on the handling of Bosphorus III during the Prime Minister's visit.

You will no doubt let me know if the Prime Minister wishes the note to be taken for collective discussion by Ministers. However, there are no differences at official level and, given the speculation in the Turkish and British media and in business circles in both countries, we would hope for the Prime Minister's endorsement of the proposed line.

I am copying this letter to Alison Brimelow (Department of Trade and Industry) and to Alex Allan (HM Treasury).

*Yours ever,*  
*L Parker*

(L Parker)  
Private Secretary

C D Powell Esq  
PS/No 10 Downing Street

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PRIME MINISTER'S VISIT TO TURKEY: THIRD BOSPHORUS BRIDGE

Summary

1. (a) Cleveland Bridge came a poor second in the initial bidding for Bosphorus III, but are still in with a chance.

(b) A major effort by HMG in support is considered worthwhile, but it should be recognised that the contract may not be awarded this year.

(c) But the Turks may seek to use the Prime Minister's visit to extract the keenest possible terms and link an award of Bosphorus III to UK support for Turkey's application to join the EC. Thus the tactics will need to be carefully worked out.

(d) ECGD cover is available for Bosphorus III, the (related) Istanbul Expressway and defence sector projects.

(e) The Prime Minister should express interest in the Bridge when the matter is raised by the Turkish Prime Minister and the Mayor of Istanbul in their private discussions, but also stress our interest in the Expressway (for which the contract may be awarded sooner), and one project in the defence field.

(f) But she should keep a low public profile concerning Bosphorus III, to kill exaggerated expectations.

(g) And we should make clear that we see no linkage at all between British interest in the project and Turkey's EC application. British firms will win the business on the merit of their bids, not in return for political favours.

Detail

Introduction

2. Cleveland Bridge Engineering (Trafalgar House Group) came a poor second in the bidding in early February for a contract to build the

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third Bosphorus Bridge on BOOT (Build, Own, Operate, Transfer) terms. The leading bidder was a Turkish company, STFA. HMG need to clarify their attitude to the project and decide how far the Prime Minister should support Cleveland Bridge's bid when she visits Turkey in April. This is all the more important because speculation has been mounting here and in Turkey that the Prime Minister's main aim from the visit (and certainly her main commercial objective) is to win Bosphorus III for Britain.

British Domestic Pressures

3. Domestic pressures have taken the form of press interest and speculation and, we understand, lobbying by Trafalgar House/Cleveland Bridge. These pressures may be increased as British firms bidding for other promising business in Turkey, in both the civil and defence fields, jockey for position in the hope of gaining the Prime Minister's support on this project, taking into account other prospects which she may also wish to promote.

Turkish Tactics

4. Speculation in Turkey, particularly but not only in the media, is intense. The idea has got abroad there that the Prime Minister is coming to win Bosphorus III for Cleveland Bridge and that she will trade that victory for support for Turkey's application to join the European Community. Such speculation is no doubt inevitable in part, given the media's need to find angles from which to present the Prime Minister's visit. But it is almost certainly fuelled as well by Government prompting. Mr Ozal tried to steer the Prime Minister in the direction of Bosphorus III when they met in Berlin last September, and there are some grounds for assuming that if the Prime Minister presses hard and Cleveland Bridge's terms are seen in the final analysis to be competitive, the project will come Britain's way. This note gives an agreed Whitehall view on how far the Prime Minister should apply pressure.

5. The Turks may be trying to sell the project twice over: to achieve support for their EC application and to extract the keenest aid and credit terms from us for the contract; they are well aware

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of the Prime Minister's keen interest in Bosphorus II (see Annex).

The Bids

6. Cleveland Bridge's bid was \$248.4m (supported by ATP of £35m, with total ECGD cover of £125m) compared to \$171.5m from STFA. There were also higher bids from Italian and Dutch firms. The low bid by the Turkish competitor is an unexpected complication. There is some suspicion that that bid may be no more than a negotiating ploy (perhaps organised by the Mayor of Istanbul). Even if this is not so, there are doubts about the technical and financial viability of the Turkish bid. The gap between the Turkish and UK prices may be more apparent than real. Despite the attempt to have us rush our fences, there is every reason for us to adopt a more measured approach. The evaluation of bids by the Istanbul municipality is not complete and there is no prospect of a contract award during the Prime Minister's visit. Indeed, it is possible that decisions on the tenders will not be made this year. Much long, hard negotiation by Cleveland Bridge will be required if they are to bring the business home. A letter of intent or memorandum of understanding might well improve Cleveland Bridge's prospects, but we doubt whether the Turks would consider such a paper binding even if signed by both Prime Ministers.

Arguments in Favour of HMG's Support

7. The arguments for supporting Cleveland Bridge's bid for Bosphorus III are:

it will be a highly visible project, which can easily be identified now and in the future as British;

Cleveland Bridge need a success for their new bridge design - a failure here could damage their prospects of business elsewhere;

manufacture of steel and other items to feed the project would secure jobs in unemployment blackspots in Britain, especially in the north-east;

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although the Turkish State Planning Office has yet to give its go-ahead for the project, which has been approved by the Istanbul Municipality, it is one of the greatly reduced number of civil projects likely to be approved;

British firms need to get to grips with work on BOOT terms - this is likely to be a feature of business with Turkey now and in the future;

The Turks would like us to have Bosphorus III if Cleveland Bridge can get their bidding right;

Failure to declare HMG's interest and support for Cleveland Bridge's bid could be seen by the Turks as lack of interest and lose us the project.

8. It was for all these reasons that, when Whitehall consideration was given to supporting Cleveland Bridge's bid in late January, before tenders were presented, the offer of ATP support and ECGD Section 2 cover was approved. We maintain our belief that it is worth a major effort by HMG to support their efforts to win this business. Although the company's bid is on the high side, in comparison to the native Turkish bid, our assessment is that Cleveland Bridge are still in with a chance. They have amongst other things neutralised Japanese competition and seem likely to have the co-operation of two major Japanese companies (including the constructor of Bosphorus II) in pursuing their bid. We are exploring the possibility of some Japanese financing for the project.

Merits of Other Projects

9. Nevertheless we should take care not to raise our profile too high. For the Prime Minister to put all her eggs in the Bosphorus III basket, only to find that Cleveland Bridge were found wanting, would be to show up her efforts in public as having failed totally. Any lobbying by the Prime Minister should include other projects in the civil sector in which other British companies have an interest (notably the related Istanbul Expressway/Golden Horn Crossing which

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could be awarded before Bosphorus III, and which a consortium led by Tarmac and Wimpey are well placed).

10. The Prime Minister may well wish to support one project in the defence field, where early decisions are expected on bids by Racal for fire control systems for locally assembled Oerlikon guns (ECGD maximum liabilities of £70 million) by Marconi and Plessey for army radios (£54 million); and by British Aerospace for a new version of the Rapiers missile (£100 million). Our prospects on the Racal bid look particularly promising; and all three military projects would provide high-value, high-technology work for Britain at a comparatively low level of Government support.

Availability of ECGD Cover

11. Central to the whole question of how much pressure the Prime Minister should bring to bear in support of British bids in Turkey is the availability of ECGD cover for medium term credit in the market. The Turkish economy is approaching another sticky patch with very high debt repayments to meet this year and next and a significant change in the banking community's sentiments towards the country. Public sector spending and inflation were allowed to reach uncomfortably high levels last year in the run up to the election and it is doubtful whether the corrective measures taken so far are adequate.

12. Optimism about the long-term prospects for what is likely to be a major growth market over the next few decades must therefore be qualified in the short term. Nevertheless, the Export Guarantees Committee (EGC) have accepted an ECGD recommendation that the Market Limit for Section 2 Cover for Turkey should be increased from the present £600 million (which is largely committed) to £750 million. This would enable the Prime Minister to offer Government guarantees for cover of the UK element of the bids for both Bosphorus III and the Istanbul Expressway/Golden Horn Crossing (£213 million between them).

13. The Prime Minister's visit and her known interest in the Bosphorus Bridges have inevitably given Bosphorus III and the

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related Expressway project a high political profile. These two projects will therefore be a first change on the increased country Market Limit (ML). EGC have agreed that, if they do not go forward in the short-to-medium-term, they will reconsider the ML in the light of the Turkish Government's progress in tackling their current economic problems. Should one of the defence contracts mentioned in paragraph 10 go forward within the time-scale envisaged, it might be possible to provide cover within the ML if cover is not required for both Bosphorus III and the Expressway; but if insufficient cover was available, Ministers would have to consider providing cover under the Section 2 defence allocation.

14. This could be the first BOOT project in Turkey covered by ECGD. Support would be for the political risks only, reflecting specific undertakings which Cleveland Bridge would have to obtain from the Turkish Government. ECGD will also need to be satisfied that the project is commercially viable. There is initial concern that in the early years viability is only achieved if either tolls are set at unrealistically high levels or the Turkish Government provides a subsidy, (although the project economics should improve considerably if cheaper long term Japanese finance is obtained to replace expensive short term commercial finance). It is a condition of ECGD support that if toll revenues are insufficient to service loan repayments the Turkish Government would be required to make up any shortfall, but we do not yet know how the Turkish Government will react to being asked to provide such a guarantee. There is a distinct danger that too much interest shown at this stage by the Prime Minister will encourage the Turks to think that they are in a strong position to water down the security package we will be trying to achieve in the long and difficult negotiations that lie ahead.

UK Tactics

15. Given the way the Turks are trying to sell us Bosphorus III, it would be tactically wrong for us to bring it to the forefront ourselves in discussion with the Turks. But we expect them to raise it themselves. We therefore recommend that in her meeting with Mr Ozal the Prime Minister should say that she hopes tht British companies will win a number of the contracts for which they are now

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very well placed on the merits of their bids; and then mention specifically projects in the defence field (notably the bid by Racal for fire-control systems) the Istanbul Expressway, Bosphorus III, (and, perhaps, other projects in the light of a re-assessment of the prospects over the next ten days). Her approach should not concentrate on Bosphorus III alone nor be so general as to dilute her attack and thus deprive it of much of its effect. But she will be able to make a very strong pitch for the Expressway and Bosphorus III emphasising that official support (including ATP and credit cover) will be available for them). The Prime Minister might add tactfully that Mr Ozal owes us some major projects for past support for his Government, not for additional political favours such as backing for Turkey's drive for EC membership.

16. The Mayor of Istanbul will be directly concerned with Bosphorus III and the Expressway. The precise tactics for the Prime Minister's meeting with him will need to be discussed nearer the time. But she might leave the Mayor to make the initial running and thereby show his hand. She might then underline the generosity of the aid HMG have offered over those projects and express her confidence in the merits of the bids by Cleveland Bridge and Tarmac/Wimpey. She will be in a position to make a very strong pitch for them, if necessary.

17. It follows that in public, both here and in Turkey, Whitehall and our missions in Ankara and Istanbul should try to dampen speculation about the Prime Minister's attitude to Bosphorus III and expectations from the visit; and to make absolutely clear that we see no linkage at all between British interest in that project and Turkey's EC application. A single reference to the Bridge as one of the potentially worthwhile projects of interest could be made in her speeches in Ankara and Istanbul. In encounters with the press the Prime Minister could adopt a similar low-key approach to the project.

RESTRICTEDHISTORY OF BOSPHORUS BRIDGESFirst Bosphorus Bridge

The First Bosphorus Bridge was completed in 1973 by Cleveland Bridge and Engineering (CBE). No UK aid was offered. The Bridge is operating well, but cannot meet demand.

Second Bosphorus Bridge

In 1984 CBE hoped to negotiate, ie. without open international competition, a contract for the Second Bosphorus Bridge, 5 miles north of the First Bosphorus Bridge. They asked for ATP support of 25% so as to be able to make a pre-emptive bid. However, concern about ECGD limits and that a mixed credit package would crowd out business on commercial terms, delayed a favourable response until February 1985 by which time the Turks had decided to invite tenders. The main competition came from a Japanese/Italian consortium whose aid support of 37% of contract value we matched.

CBE's price, \$313m for the bridge and some approach roads was not greatly higher than that of the Japanese/Italians, \$270m (and for the bridge itself lower than that of the competition) but CBE's price, \$676m, for the overall project, which included a road system, was substantially higher than that of the Japanese/Italians, \$550m, who were awarded the contract.

CBE claimed that slowness in agreeing to aid support robbed them of the chances of a negotiated contract and success. While Governmental consideration took far too long, it is unlikely that the Turks would have failed to have invited tenders when they were aware of the strength of the Japanese competition and concessional financing. CBE were beaten squarely on price and by the Japanese offer, which we could not match, of soft financing for the road system. CBE's choice of local partners - ENKA, with whom they are co-operating for the current project - was questionable. They appeared also to have underrated the competition.

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10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

30 March 1988

**PRIME MINISTER'S VISIT TO TURKEY:  
THIRD BOSPHORUS BRIDGE**

Thank you for your letter of 20 March enclosing a note by officials about the handling of discussions on Bosphorus III during the Prime Minister's visit to Turkey.

The Prime Minister has read the note and made no comment on the proposal. I think we can take it that no discussion by Ministers will be needed.

I am copying this letter to Alison Brimelow (Department of Trade and Industry) and Alex Allan (HM Treasury).

(C. D. POWELL)

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

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10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

9 April 1988

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*See Alison.*

THIRD BOSPHORUS BRIDGE

During her visit to Turkey the Prime Minister discussed the Third Bosphorus Bridge contract with both Mr. Ozal and separately with Mr. Dalan, the Mayor of Istanbul.

The Prime Minister told Mr. Ozal that we had been disappointed not to win the contract for the second Bosphorus Bridge. We believed that the British companies were particularly expert in this area and should be able to win the contract for the third Bosphorus Bridge strictly on merit. Mr. Ozal was defensive. British firms had in fact got a lot of work on the second Bosphorus Bridge, even though they had not won the main contract. As regards the third Bridge, he understood that a Turkish company had submitted the lowest bid. Its bid was based on a British design, by the famous Dr. Brown, and was very much cheaper than the British bid. This was because the lightweight design meant that much less steel would be required. He believed that the Turkish group concerned would be looking to British suppliers for steel and cable for the bridge. He urged the Prime Minister to discuss the project with the Mayor of Istanbul. He then steered the conversation towards other projects particularly in the defence field (see separate record). The Prime Minister remarked afterwards that it was clear to her from this conversation that we were not going to win the contract for the third Bridge.

At Mr. Ozal's dinner that night, the Chairman of the Turkish company which submitted the lowest bid for the Bridge was confident that his company would receive the contract. He was a good deal less confident that the Bridge would actually be built in the foreseeable future.

While we were in Istanbul, the Mayor asked to see the Prime Minister alone to discuss the Bridge. Our Ambassador in Ankara will be reporting the Prime Minister's subsequent debriefing. But the essential points were:

- the contract for the Bridge would not go to the British firm since their price was very much higher than that of the Turkish consortium;
- we were also unlikely to get the contract for the steel since Spanish firms had put in a much lower bid.
- the prospects for British firms winning the contract for the Istanbul Expressway were very much better: "it is yours". (He did not say what we learned from other sources, namely that the Turkish Finance Minister had just vetoed the project).
- however we had been prepared to give a higher proportion of ATP for our bid for the Bridge than for the Expressway. He hoped that we would look again at this aspect.
- moreover, he had just that day proposed to the various Turkish companies involved that the Bridge and Expressway projects should be merged.
- if we could increase the aid/subsidy element in our offer - presumably, although he was not specific, by diverting some of the ATP support for the Bridge to improve our bid for the Expressway - we would be well placed to benefit very substantially from the project as a whole.
- he asked the Prime Minister to let him have an urgent reply.

The Prime Minister has asked Mr. Daunt to let us have advice on how to respond. There is obviously a very large element of bazaar in Mr. Dalan's approach. The Ambassador is sceptical whether either project will now go ahead. And it would presumably be difficult to increase our ATP support substantially, at least unless we were confident that a bigger proportion of the work would actually come to British firms. On the other hand, Mr. Dalan carries great political clout. It is not to be excluded that he will overcome the attempts by the Turkish Finance Ministry and the Ministry of State Planning to block the projects. The Prime Minister is very keen to see British firms get the Expressway contract and/or a substantial part of the new combined project if it proves to be more than a gleam in Mr. Dalan's eye. She certainly does not want British firms to lose out because the Government were either too slow (as in the case of the second Bosphorus Bridge project) or too unimaginative in providing financial support. She therefore wants us to look very rapidly at the options for redistributing or increasing our financial support for the project or projects, so that she is in a position to reply to Mr. Dalan within a matter of days. Any revised offer would of course be conditional on British companies getting a specific share of the work.

I should be grateful for a very early response.

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

*Yours sincerely,  
Charles Powell*

C. D. POWELL —

Miss Alison Brimelow,  
Department of Trade and Industry.



*pyg*

10 DOWNING STREET

LONDON SW1A 2AA	
CH/EXCHEQUER	
REC.	11 APR 1988
ACTION	Mr MOUNTFIELD
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9 April 1988

From the Private Secretary

*Dear Syr.*

**PRIME MINISTER'S VISIT TO TURKEY:**  
**MEETING WITH TURKISH PRIME MINISTER**

The Prime Minister had a meeting lasting some two hours with the Turkish Prime Minister on the first morning of her official visit to Turkey (7 April). Mr. Ozal was accompanied by the Turkish Ambassador in London and by a member of his private office Mr. Volkan Bozkurt. H.M. Ambassador in Ankara was also present.

**Hijacking of Kuwaiti aircraft**

The meeting opened with a brief discussion of the stage reached in the hijacking of the Kuwaiti aircraft and the position of the British passengers. Mr. Ozal offered to use his contacts with the Iranians to try to find out more about the situation on the ground in Mashhad. He later reported that he had been approached by the Kuwaiti Government with a request that he urge the Iranians not to allow the aircraft to take off and complied.

**Iran/Iraq**

This led on to a discussion of the Iran/Iraq war. Mr. Ozal gave an account of his impressions of Iran. There seemed to be fewer pictures of Khomeini on display than two years ago and the women were less heavily veiled. More generally, he was impressed by the amount of political activity in Iran. While Iraq was a dictatorship, Iran had a functioning Parliament, with many conflicting groups and shifting alliances. Khomeini's role was essentially that of refereeing disputes between the groups. The absence of a strong government party meant that there was bound to be trouble once Khomeini left the scene. Mr. Ozal added that he had raised the case of Mr. Cooper during his visit to Iran.

Turning to the situation in the Iran/Iraq war, Mr. Ozal said that he had engineered a truce in the war of the cities for the duration of his own visit to Baghdad. Unfortunately, it had not lasted. His feeling was that, if a wider truce

could be agreed for a period of two or three months, it would in practice mean an end to the war. Once the fighting stopped, there would be strong public resistance in both countries to a resumption. However, the chances of such a truce appeared remote in the wake of the resumption of the war of the cities. Mr. Ozal added that there was no doubt that the Iraqis had used chemical weapons on the north-east front. They may have done so in error, believing the area in question to have been over-run by the Iranians. The only casualties had in fact been Kurds. He believed that the Iraqis were obtaining materials for their chemical weapons from Germany. Turkey was treating Iraqi requests for over-flights with suspicion and had required at least one to land at Istanbul.

The Prime Minister shared Mr. Ozal's gloomy prognosis for any early end to the war. There was no option but to work through the United Nations and to try to enforce Security Council Resolution 598. She agreed that the war of the cities had been a considerable set-back.

### Afghanistan

Mr. Ozal predicted a period of chaos and fighting following Soviet withdrawal from Afghanistan. He seemed concerned that the Soviet Union would somehow try its trade agreement to support an arms embargo against Iran for a free hand to continue supplying the Afghan regime with weapons. The Prime Minister said that she was certain that the Russians had made up their minds to leave. We must do nothing to hinder that. On the other hand, if they insisted on continuing to supply the Afghan regime with weapons, there must be symmetry with the Americans and others free to go on supplying the resistance. She agreed that Soviet withdrawal was likely to be followed by further fighting. But we did not expect the present regime in Kabul to survive for long.

### Turkish economy

Mr. Ozal gave a lengthy and rosy account of Turkey's economic situation and prospects. The country was going through a major transformation. In five years it had progressed from being a closed economy to becoming an open market economy, with no import quotas and greatly reduced tariffs. While the rate of population increase was still too high, it was declining and would probably be down to one per cent by the end of the century. Some 60 per cent of the population was now in the cities with 40 per cent in the rural areas. By the end of the century, the proportions would be of the order 80/85 per cent to 15/20 per cent. At the same time, Turkey was changing from being an agriculturally-based to an industrially-based economy. In 1979 exports had accounted to only \$US 2 billion of which sixty per cent had been agricultural products. In 1987, the figure had been \$US 10 billion of which eighty per cent had been industrial goods. He expected a further twenty-five per cent increase in exports in 1988. Despite high interest payments due this year, booming exports and tourist earnings meant that Turkey would be able to meet its commitments. He expected the balance of

payments to be more or less neutral in 1988. Overall growth had been very strong, running at 8, 8.1 and 7.4 per cent over the past three years. His aim was to lower the growth rate somewhat in the current year, mainly by cutting public investment. His target was six per cent growth for 1988. The biggest problem was inflation. There were two causes: the opening up of the Turkish economy to the outside world, which led domestic prices to rise towards the external price levels; and the increase in the money supply. The government were taking drastic steps to combat inflation. He believed that prices would continue to rise rapidly for a further two months but would then slow down and level off. Overall, he was confident that Turkey would reach stability at a lower level of inflation and lower unemployment. Indeed, unemployment was starting to decline for the first time ever.

The Prime Minister commented that the performance of the Turkish economy had been impressive but there were clearly short term risks in the high level of inflation. If this were allowed to continue, it would be very damaging. Mr. Ozal said that there was bound to be a cost in opening up the Turkish economy to the outside world.

#### Major projects

Mr. Ozal said that Turkey's main need continued to be to strengthen the basic infrastructure of its economy. The Prime Minister said that this should give opportunities to British firms. We had been disappointed not to win the contract for the second Bosphorus bridge. British firms were particularly well qualified in this area. We hoped they would win the contract for the third Bridge on the basis of merit. Mr. Ozal said that British firms had in fact received substantial orders for steel and cable for the second Bosphorus bridge. He also claimed (wrongly I believe) that the design of the second Bridge had been British. In the case of the third Bosphorus bridge, a Turkish group had submitted the lowest bid, based on a design by a British consultant (Dr. Brown) for a bridge which was half the weight and thickness of that proposed in the competing British bid. He understood that the Turkish group were also approaching British companies to supply the steel and cables. He encouraged the Prime Minister to discuss this further with the Mayor of Istanbul.

Mr. Ozal continued that he understood that British firms were well placed to win the contract for the Istanbul expressway. The Prime Minister said that we were indeed hopeful about this and were also interested in the Omerli III water supply contract. British companies were also involved in bids for various items of defence equipment. We had been disappointed that Warrior had not been selected by the Turkish Armed Forces, since it was quite clearly the best of the available vehicles. Mr. Ozal interrupted to say that he understood that a British company was very likely to win the contract to supply military radios on which a decision was due towards the end of July. This would be worth \$US 500 million over ten years. He also referred to projects for a mobile radar in which Marconi were interested; the Turkish

requirement for over 300 helicopters which might be of interest to Westland if they were prepared to make some of the parts in Turkey; the prospects for Rapier; and the Zeus electronic warfare suite for Turkey's F-16 aircraft, although there was also strong American competition here. The Prime Minister added to the list Pilkington's interest in supplying sights for the Turkish Army's new APCs. In the light of Mr. Ozal's comments, she would be resolutely optimistic about the prospects of our companies winning some important defence contracts, and correspondingly disappointed if they did not.

### European Community

Mr. Ozal raised Turkey's application for membership of the European Community. There were signs that the freeze in the Community's relations with Turkey under Association Agreement was ending and he was grateful for Britain's help over this. He hoped that the amounts outstanding under the Fourth Financial Protocol could be released. It was not so much the sum of money which was important - its real value was of course much less than at the time it had been agreed in 1981 - but it was of symbolic importance. Looking further ahead, he was convinced that, whatever the Commission reported on Turkey's application, Turkey would become a member of the European Community one day. He would not want to forecast a date. His main immediate concern was that Turkey should prepare itself better for membership than other recent applicants had done.

The Prime Minister recalled that we had done everything possible during the United Kingdom's Presidency to revive the Association Agreement. We wanted to see the Fourth Financial Protocol unblocked. The sums of money involved were far from insignificant. The Community was now busy with the task of absorbing Spain and Portugal, which would take many years. Some people argued that Turkey's economy would not be able to take the strain of membership of the Community: the disparity between Turkey's standard of living and the average in the Community was too great.

Mr. Ozal said that Turkey's standard of living was not as low as the figures implied. Turkey's per capita income was normally given as \$US 1500, but on the basis of purchasing power parity the right figure was \$4000. He would like to see EC countries invest more in Turkey to help prepare the Turkish economy for eventual membership. They might offer special assistance to companies prepared to invest. After all, substantial aid was being provided to Greece and Portugal and Spain. Once the Commission had delivered its opinion on the Turkish application, the Community should start negotiations with Turkey straight away. That in itself would strengthen confidence in the Turkish economy and encourage investment. He recognised that negotiations would take many years. The important point was that Turkey should not be rebuffed.

The Prime Minister said that the critical point was for the Commission to finalise its opinion. Nothing could happen until that had been received and studied by the Member States.

She could not give any commitments, only say that the United Kingdom would approach the issue from the perspective of its historic friendship with Turkey. Meantime, Turkey and the European Community should be seen to be working together and the Association Agreement was the best instrument for this. We would do our level best to invigorate it.

The Prime Minister continued that Mr. Ozal's remarks raised several other important issues. It was only realistic to recognise that Turkey's membership would impose a massive financial burden on the Community which would necessitate a complete restructuring of its financing. This would mean in turn that countries which were at present net beneficiaries would become net contributors. This would not be at all welcome to them. There were other practical problems such as free movement of workers. Mr. Ozal interjected that Turkey was ready to accept limitations on the movement of workers in the context of an eventual agreement. He had made this plain to the Germans. The Prime Minister continued that she thought that Mr. Ozal was right to focus on attracting investment from foreign firms. This made it all the more important to conclude an Investment Protection and Promotion Agreement with the United Kingdom. This meant that Turkey must accept a safeguard clause, otherwise there would be no agreement. Mr. Ozal seemed surprised to hear there were difficulties and said that he would look into the problem. Turkey had completed such agreements with many countries.

The Prime Minister concluded that she thought Mr. Ozal was handling Turkey's application in the right way. Britain and Turkey were good friends and we would approach all discussions in that light.

### Cyprus

The Prime Minister said that she had seen President Vassiliou in London. He seemed more willing to negotiate than his predecessor had been. He obviously attached great importance to the improvement in Greek/Turkish relations. She had warned him that, while an improved atmosphere between Greece and Turkey was helpful, it was no substitute for direct negotiations between the two communities. Vassiliou had appeared to make withdrawal of Turkish troops and the de-militarisation of Cyprus a condition for progress. She had told him that this would simply erect a road block. The most he should say was that he was working for a solution under which the presence of foreign troops would in the long term be unnecessary. Moreover, since progress would only come about as a result of negotiations between the two communities, he must be prepared to meet with Mr. Denktash. A meeting with Mr. Ozal could come only after that. He should also be ready to work through the United Nations. The Prime Minister added that good-will gestures by both sides would make a resumption of negotiations easier.

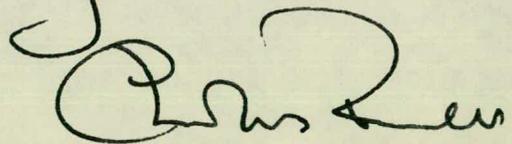
Mr. Ozal agreed that the first step must be for President Vassiliou to meet Mr. Denktash. It might then be possible to move on to a quadripartite meeting involving

Turkey, Greece and the leaders of the two communities. He saw Turkey's role as making it easier to solve the problem not to make it harder. But certain points had to be clear. Producing a map, he indicated why Turkey could never accept a Greek Cyprus right on its doorstep. Turkey did not want partition of Cyprus and accepted that it should be a unified state with a federal structure. As for the presence of Turkish troops, there had been no bloodshed in Cyprus since Turkish forces had been there. If they were withdrawn, he feared there would be a resumption of fighting.

Turning to the wider aspect of relations between Turkey and Greece, Mr. Ozal said that he knew that he had the courage to reach a solution to the Cyprus problem. But he was not sure about Mr. Papandreou: he doubted whether he was capable of making compromises. There would be people in both Greece and Turkey who would be highly critical of any agreement and would accuse Mr. Papandreou and him of selling out. He was prepared to confront the hard liners. Would Mr. Papandreou show similar resolve? The Prime Minister commented that her impression was that their meetings so far had been mostly atmospheric. Mr. Ozal agreed, adding that it would take time to develop a working relationship. But he would be going to Athens on 13 June with the intention of building on the progress already made.

I should be grateful if you would send a copy of this record to the Ambassador in Ankara.

I am copying this letter to Alex Allan (Treasury), Alison Brimelow (Department of Trade and Industry), Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

*Yours sincerely,*  


C. D. POWELL

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL

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

C D Powell Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
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Your ref  
Date 14 April 1988

Dear Charles,

### THIRD BOSPHORUS BRIDGE

In your letter of 11 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 and to attempt to discredit STFA's offer. 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.

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.

We must nonetheless start thinking about the basis of a possible counter-proposal which might be advanced if and when Trafalgar House were to conclude that their efforts to discredit STFA's bid will fail. We see no merit in a contractual link between the two projects, although this does not rule out a horse trade. Mayor Dalan seems to want an improvement in the concessionality on the Expressway. We could certainly consider this together perhaps with an extension of the terms of repayment, although the Turks have signed a letter of intent accepting the existing level of concessionality.

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).

*Yan*  
*Steph Ratcliffe*

STEPHEN RATCLIFFE  
Private Secretary

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MY TEL NO OTTER 0075: PRIME MINISTER'S VISIT:  
THIRD BOSPHORUS BRIDGE AND ISTANBUL EXPRESSWAY

SUMMARY  
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1. DALAN'S PROPOSALS TO THE PRIME MINISTER NOT ATTRACTIVE AT FIRST SIGHT AND LEAVE MANY UNANSWERED QUESTIONS. IMPORTANT TO BE SURE WHERE TURKISH GOVERNMENT STANDS. WE SHOULD PRESS YUSUF OZAL ON THIS WHEN HE SEES LORD YOUNG ON 19 APRIL.

DETAIL  
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2. THE DEVELOPMENT ON BOSPHORUS 3 AND BESA (MY TUR) ARE DISAPPOINTING. NOT ONLY IS THERE NO PROGRESS ON BOSPHORUS 3 BUT THE TURKS HAVE TAKEN A STEP BACKWARD ON BESA FOLLOWING THE TREASURY'S 6 APRIL DECISION TO POSTPONE THE PROJECT FOR AT LEAST 12 MONTHS.

3. DALAN'S PRIVATE PROPOSALS TO THE PRIME MINISTER FURTHER COMPLICATE THE POSITION. THEY ARE NOT AT FIRST SIGHT PARTICULARLY ATTRACTIVE FOR SEVERAL REASONS:

(A) IT IS NOT AT ALL CLEAR WHY, IF THE TURKISH TREASURY IS RELUCTANT FOR UNDERSTANDABLE (IF UNFORTUNATE ) MACRO ECONOMIC REASONS TO AGREE TO BESA, THEY SHOULD BE MORE WILLING TO AGREE

TO AN EVEN LARGER COMPOSITE PROJECT INVOLVING BOTH BESA AND THE BRIDGE. MOREOVER I SHOULD EXPECT TARMAC AND WIMPEY TO WISH TO AVOID, IF AT ALL POSSIBLE, HAVING THE FATE OF THEIR NON-BOT PROJECT LINKED TO THE BOT BRIDGE PROJECT. SO FAR WE HAVE BEEN LED TO BELIEVE THAT BESA CAN STAND ON ITS OWN MERITS AS A PROJECT.

(B) ONCE WE MOVE TO THE IDEA OF A NEW COMPOSITE PROJECT WE RISK A REPEAT OF WHAT HAPPENED ON BOSPHORUS 2 WHEN THE ROADS WERE ADDED TO THE ORIGINAL BRIDGE PROJECT AND THE JAPANESE EVENTUALLY PUSHED US OUT BY OFFERING A FINANCE PACKAGE WE COULD NOT MATCH.

(C) ATP FOR THE BRITISH MATERIALS GOING INTO AN STFA BUILT BRIDGE OFFERS US A LESS GOOD DEAL THAN WE EVENTUALLY GOT FOR BOSPHORUS 2 WHEN SIZEABLE QUANTITIES OF BRITISH STEEL AND ROPES WERE BOUGHT WITHOUT AN AID ELEMENT.

(D) DALAN'S APPROACH ASSUMES THAT DR BROWN'S CONTROVERSIAL DESIGN FOR THE STFA BRIDGE IS TECHNICALLY SOUND. CLEVELAND BRIDGE WILL CONTEST THIS VIGOROUSLY. THE TURKS HAVE CARRIED OUT NO EXPERT ASSESSMENT.

(E) WE HAVE NO IDEA WHETHER AND IN WHAT DETAIL DALAN'S PRIVATE PROPOSAL HAS BEEN DISCUSSED WITH THE GOVERNMENT IN ANKARA, NOR WHAT IF ANY INDICATION OF SUPPORT IT HAS RECEIVED FROM OZAL.

(F) A POSITIVE BRITISH RESPONSE WOULD INEVITABLY CUT THE GROUND FROM UNDER CLEVELAND BRIDGE WHEN THEIR PROSPECTS MAY NOT BE HOPELESS (D) ABOVE.

4. IT SEEMS TO ME THAT OUR FIRST STEP MUST BE TO GET AN AUTHORITATIVE AND DETAILED VIEW OF THE TURKISH GOVERNMENT'S (AS OPPOSED TO DALAN'S ) CURRENT POSITION ON BOSPHORUS 3 AND BESA. OZAL, IN REFERRING THE PRIME MINISTER TO DALAN, GAVE NO INDICATION THAT HE SUPPORTED DALAN'S IDEAS.

5. THERE WILL BE AN EXCELLENT OPPORTUNITY TO TAKE THE NECESSARY SOUNDING WHEN YUSUF OZAL AND CANEVI VISIT LONDON NEXT WEEK AND CALL ON LORD YOUNG ON 19 APRIL. YUSUF OZAL IS THE KEY ECONOMIC MINISTER AND BOTH ARE INFLUENTIAL OVER THE HIGHER PLANNING COUNCIL RESPONSIBLE FOR AUTHORISING ALL NEW LARGE

PUBLIC SECTOR PROJECTS, AS WELL AS CLOSE TO OZAL HIMSELF.

6. I RECOMMEND THAT LORD YOUNG SHOULD SOUND OUT YUSUF OZAL IN DETAIL, WHILST BEING CAREFUL TO PRESERVE THE CONFIDENTIALITY OF DALAN'S 'PRIVATE' APPROACH TO THE PRIME MINISTER. HE MIGHT SAY THAT HE HAD HOPED FOR SOMETHING MORE CONCRETE DURING THE PRIME MINISTER'S VISIT OVER THE BRITISH BIDS FOR THE TWO PROJECTS. THE REPORTED POSTPONEMENT OF BESA JUST BEFORE THE PRIME MINISTER'S VISIT WAS A PARTICULAR BLOW. HE MIGHT ASK YUSUF OZAL TO SAY FRANKLY WHAT TIMESCALE THE TURKISH GOVERNMENT HAD NOW SET FOR THE TWO PROJECTS, STRESSING THAT WE DID NOT WANT OUR FIRMS TO BE KEPT HANGING ROUND FOR PROJECTS THAT WERE UNLIKELY TO MATERIALISE FOR SEVERAL YEARS IF THEN HE COULD POINT TO THE DRAWBACKS FOR THE TURKS OF TYING UP POTENTIAL CREDIT COVER AND ATP ASSISTANCE IN THIS WAY, AND TO THE POSSIBLE SOURING OF OUR OVERALL TRADING RELATIONSHIP.

7. SECONDLY, LORD YOUNG MIGHT EXPRESS SURPRISE FOLLOWING THE PRIME MINISTER'S TALKS IN TURKEY THAT THE AUTHORITIES SHOULD APPEAR TO HAVE COME OUT IN FAVOUR OF THE STFA BID WITHOUT, AS FAR AS WE CAN DETERMINE, AN EXPERT TECHNICAL AND FINANCIAL ANALYSIS OF IT AND THE CLEVELAND BRIDGE COMPETING OFFER. THIRDLY, HE SHOULD ALLUDE TO HINTS DURING THE PRIME MINISTER'S VISIT AND ASK WHETHER THE TURKISH GOVERNMENT ARE AGAIN SERIOUSLY CONTEMPLATING THE BESA AND BRIDGE PROJECTS BEING LINKED TOGETHER IN SOME WAY.

8. THE RESPONSES TO THESE QUESTIONS SHOULD HELP US TO MAKE SENSIBLE RECOMMENDATIONS TO THE PRIME MINISTER ON HER RESPONSE TO DALAN'S PRIVATE PROPOSAL. THAT RESPONSE SHOULD FOLLOW AS QUICKLY AS POSSIBLE I DO NOT CONSIDER, HOWEVER, THAT THERE IS URGENCY IN GETTING BACK TO DALAN SINCE THERE ARE NO IMMEDIATE DECISIONS FOR HIM TO TAKE.

9. IF YOU AGREE WITH THIS APPROACH, I SHALL SPEAK IMMEDIATELY TO CANEVI TO ENSURE THAT HE AND YUSUF OZAL ARE PROPERLY BRIEFED BEFORE THEY SEE LORD YOUNG.

DAUNT

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

17 April 1988

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*papers none  
(for Alan)*

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.

CONFIDENTIAL

**RESTRICTED**

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

C D Powell Esq  
Private Secretary to the  
Prime Minister  
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Your ref  
Date 18 April 1988

*Dev Chales,*

**THIRD BOSPHORUS BRIDGE**

In your letter of 17 April you asked for a draft holding reply which the Prime Minister could send to the Mayor of Istanbul. ... I enclose a draft telegram to Ankara, which has been cleared with interested Departments. While emphasising our continuing interest in the projects, we should not give the Mayor the impression that we shall fall in with his suggestions.

We shall meanwhile be working up the ideas in my letter of 14 April following Mr Yusuf Ozal's call tomorrow upon Lord Young.

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

*Your sincerely*

*Stephen Ratcliffe*

STEPHEN RATCLIFFE  
Private Secretary

# OUT TELEGRAM

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YYYYY MAIN ADDITIONAL NNNN		Catchword: <b>AFTER</b>	
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# OUT TELEGRAM (CONT)

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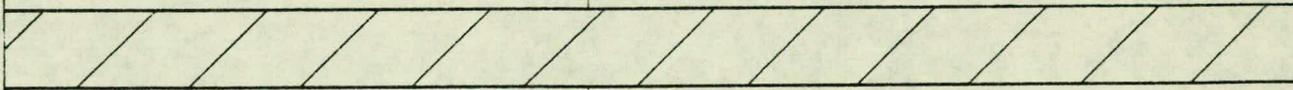
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*From the Private Secretary*

19 April 1988

**THIRD BOSPHORUS BRIDGE**

Thank you for your letter of 18 April enclosing a holding reply from the Prime Minister to the Mayor of Istanbul about the various ideas which Mr. Dalan put to her during her visit to Istanbul. This may issue with the minor amendments marked on the text, which commit us to give a substantive reply rather more rapidly than implied in your draft.

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

(C. D. POWELL)

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

# OUT TELEGRAM

	Classification <b>RESTRICTED</b>	Caveat	Precedence <b>IMMEDIATE</b>
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1 ZCZC  
2 RESTRICTED  
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4 FM DTI  
5 TO IMMEDIATE ANKARA  
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7 OF 18            APRIL 88  
8 AND TO IMMEDIATE ISTANBUL

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10  
11 YOUR OTTERS 75 AND 76: THIRD BOSPHORUS BRIDGE  
12  
13 1     The Prime Minister wishes to send a holding reply to the  
14 Mayor of Istanbul. Please pass the following message verbally  
15 to Mr Dalan. The text of the original follows by bag to the  
16 Consul-General, Istanbul.  
17  
18        QUOTE I should like to thank you once again for helping  
19 to make my visit to Istanbul so memorable. I very much  
20 admire the tremendous efforts you are making to develop  
21 your ~~beautiful~~ city.  
22  
23        Since my return we have been considering carefully your  
24 suggestions to me about the financing of the Third Bos-  
25 phorus Bridge and the Istanbul Urban Expressway. British  
26 companies remain extremely keen to help you undertake these  
27 important projects. You will understand that your sug-  
28 gestions contain interesting but difficult features for  
29 us and it will take a little <sup>longer</sup> ~~while~~ to concert a response.



YYYY  
MAIN  
ADDITIONAL  
NNNN

		Catchword: <b>AFTER</b>	
File number	Dept DTI, PEP1	Drafted by (Block capitals) F B WHEELER	Telephone no 215 5454
Authorised for despatch by:		Initials    Date/time	
For COD use only	Comcen reference	Telegram number	Processed by



*[Handwritten signature]*

RESTRICTED

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

Charles Powell Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

Department of  
Trade and Industry

1-19 Victoria Street  
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*5/5*

CH/EXCHEQUER	
REC.	05MAY1988
ACTION	CST
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Direct line 215 5422  
Our ref DW3AFU  
Your ref  
Date 5 May 1988

Dear Charles,

THIRD BOSPHORUS BRIDGE AND ISTANBUL URBAN EXPRESSWAY

In your letter of 19 April approving the text of a holding reply to the Mayor of Istanbul you asked us to prepare as soon as possible a substantive reply from the Prime Minister. I enclose a draft.

At his meeting with the Prime Minister, Mr Dalan suggested that the Bridge and Expressway projects might be combined and that the UK should provide increased aid for the Expressway and aid support for the supply of steelwork for the Bridge. Yusuf Ozal took much the same line with Lord Young, suggesting that both projects might be financed on a BOOT or lease-back basis. By contrast, Mr Dalan appears to have told Turkish contractors that it is the UK which has advocated a combined approach, and the agents of Wimpey and Tarmac have reported that the Turkish Treasury wants to press ahead with the Expressway and favours no linkage. These latter reports, which we do not regard as authoritative, have nonetheless hardened Tarmac and Wimpey in their view that the Turks do not want to combine the projects. The two companies, moreover, believe it is not in their interest to do so.

It could unstitch their contract, cause delay (perhaps Yusuf Ozal's tactic), undermine their existing deal if the project were converted to a Build Own Operate Transfer (BOOT) basis and, by attempting to finance both projects simultaneously, greatly increase the difficulties. Cleveland Bridge and Engineering (CBE) favour a combined approach believing that we have to respond constructively to the Mayor's ideas. Departments and the Ambassador (who does not believe a definitive Turkish view can be obtained) have concluded that



the department for Enterprise

we need to give lip service to the idea of a combined project but in substance address each project separately. Tarmac/Wimpey, fearful that any linkage may delay their project and suspicious of Trafalgar House's motives, have reluctantly agreed to reply on the lines of the enclosed draft.

With the Expressway, the main aim must be to keep the project moving and Tarmac and Wimpey in the driving seat. We do not believe that by increasing the level of aid by, say, £5 million (although this may ultimately be needed), we would overcome Ankara's reluctance, deriving from understandable concern about Turkey's indebtedness, immediately to sign the contract. The suggested offer of free site investigation should save the Turks time and money. The offer to examine alternative methods of finance should appeal to Yusuf Ozal, although we expect that the study will confirm the companies' view that BOOT is impracticable and Build Lease Transfer is very expensive. In return, we ask for a personal assurance from the Mayor that the contract will be placed with Tarmac/Wimpey.

Cleveland Bridge and Engineering's hold on the Bosphorus Bridge project is altogether more tenuous. They need to improve their position by casting doubt on Dr Brown's design and/or by satisfying themselves that, given the opportunity to work with STFA, it can be supported. The proposed free study addresses this, while the offer to examine the financing is intended to demonstrate that only CBE's proposal is truly on a BOOT basis and capable of attracting commercial money. Again, we are not convinced of the need to increase the concessionality, and indeed the draft makes clear that ATP support can be offered only for a project and not for the supply of steel.

We can by no means be sure that this response will be acceptable to the Mayor. He professes to believe that our aid support for the Expressway is at a lower rate than that for the Bridge (the rate is identical), and is doubtless expecting more. While our guess is that neither project will proceed for perhaps a year, Mr Dalan could well award the Bridge contract to STFA. He may find, as CBE believe, that offshore finance for an unproven design cannot easily be raised. However, we suspect that the Italians would work with STFA and the Japanese may step in with offers of finance. One of our aims must be to keep the Japanese tied in with the British bids for both projects.



the department for Enterprise

We think it essential that the Turkish Government be brought more fully into the picture and recommend that the Prime Minister also write to Mr Turgut Ozal to inform him of what she has proposed to Mr Dalan. A draft letter is enclosed. We suggest that the Ambassador should mention this when handing over the Prime Minister's letter to Mr Dalan. (We would send the Ambassador a covering telegram of instructions and background).

The Treasury, FCO and ODA, and ECGD are content with this approach, as is our Ambassador in Ankara. I am copying this letter to Lyn Parker (Foreign and Commonwealth Office), Alex Allan (HM Treasury) and Myles Wickstead (Overseas Development Administration).

Yours ever

Step Ratcliffe

STEPHEN RATCLIFFE  
Private Secretary

RESTRICTED

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

Mr Turgut Ozal  
Prime Minister of Turkey

When we met last month in Ankara we discussed among other things two important projects - the Third Bosphorus Bridge and Istanbul Urban Expressway - for which British companies are bidding. I subsequently talked to Mr Dalan in Istanbul about these projects.

I thought you should know, since these ventures are an important aspect in our commercial relations, that I have written to Mr Dalan offering to pay for technical studies which will help establish a sound design for the Bridge and permit preliminary site investigations to be made for the Expressway. In view of the likely difficulties in financing these projects, we have offered to meet the costs of independent studies of limited recourse methods of financing, such as BOOT and leaseback, drawing upon innovative Turkish work in this field.

I am confident that the outcome of these studies will allow the project to proceed on a sound basis and improve the prospect of attracting international financing, in addition to the generous aid support we have offered to provide. I have suggested as a first step that a team of UK Government officials should visit Turkey to discuss the terms of reference.

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DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

Mr B Dalan  
Mayor of Istanbul  
Turkey

**ISTANBUL URBAN EXPRESSWAY AND THIRD BOSPHORUS BRIDGE**

In my letter of 19 April, I said that I would be in touch with you again shortly in order to give you a considered reply to the proposals you made to me at our meeting in Istanbul.

You suggested then that the Third Bosphorus Bridge and Istanbul Urban Expressway projects might be linked in some way. There could well be advantage in this : an integrated approach to Istanbul's traffic problems is needed, and the economic viability of the projects would be improved if completed at the same time.

I agree also with you that a joint Turkish-United Kingdom approach would be best, drawing upon the strengths of able Turkish contractors, such as ENKA and ESKA, and upon the competence of major British companies like Tarmac/Wimpey and Trafalgar House (Cleveland Bridge and Engineering), who enjoy the full confidence and support of the British Government. In response to your ideas, I have some proposals to put forward which we believe will lead to soundly designed and well-financed projects.

British firms, together with Turkish and Japanese partners, have advanced an attractive and technically and financially sound proposal for the Expressway, which has been accepted by you. The British Government has also made a generous offer of aid support,

(at a rate of 30.1 per cent of the UK content, the same rate as that offered for the Bridge). If advantage is to be taken of this aid offer, which cannot be extended indefinitely, it is important that early progress be made. If you were prepared to give me your personal assurance that you will proceed with the TWEEK Joint Venture, the British Government would be willing to pay for a preliminary site investigation together with a study of alternative methods of financing the project, such as BOOT and lease-back, the study to be carried out by independent and internationally recognised financial advisers, drawing upon the innovative work of Turkish Government agencies.

Several bids have been submitted for the Third Bosphorus Bridge. They are not, however, comparable. Not all incorporate a proven design and only one, that put in by the Turkish-UK Joint Venture of ENKA and Cleveland Bridge and Engineering, offers full BOOT financing. Any bridge over the Bosphorus must be of sound design, both for reasons of safety and to attract international financing, and I am sure you are about to take steps rigorously to evaluate the various designs. With this in mind, the British Government is ready to assist you by paying the offshore costs of a technical evaluation to be carried out by an independent and recognised international authority or consultants. Its purpose would be to establish a design specification, which would ensure the Bridge's durability in service, and to assess and evaluate the extent to which designs submitted meet that specification.

We are ready also to assist you to examine how best to finance the Bridge, whether with limited recourse or otherwise, by paying for a study again to be carried out by independent and internationally recognised financial advisers. These offers are made on the understanding that you share our wish that the Bridge project be executed as a Turkish-UK venture. Technical and financial evaluations are, in our view, essential, if the project

is to attract international finance which will be forthcoming only for a bridge of validated design and supported by a sound financial structure. Equally, UK Government aid, a key component in the financing, will be available only in support of a validated design, UK engineering, manufacture and construction, with UK contractors working together with Turkish contractors of such standing as ENKA and STFA. UK aid could not be offered merely for the supply of materials, steelwork and cables.

In a spirit of Turkish-UK co-operation, we have tried to find ways constructively to respond to your suggestions and to enable you to make early progress with both projects. If, as I hope, these offers of free technical and financial studies, which we estimate will cost up to £1 million, are acceptable to you, the next step should be for a team of UK Government officials to visit Turkey to discuss terms of reference. I look forward to hearing from you very soon through our Ambassador, Mr Daunt.



*[Handwritten signature]*

CH/EXCHEQUER	
REC.	06 MAY 1988
ACTION	CST
COPIES TO	

✓ 6/5

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

6 May 1988

*[Handwritten signature]*

THIRD BOSPHORUS BRIDGE AND THE  
ISTANBUL URBAN EXPRESSWAY

Thank you for your letter of 5 May enclosing letters from the Prime Minister to Mr. Ozal and Mr. Dalan about the Third Bosphorus Bridge and the Istanbul Urban Expressway. The Prime Minister has signed the letters and I am sending the top copies to the Foreign Office so that they can be delivered. It would be best to telegraph the text in advance to Ankara for delivery as soon as possible.

I am copying this letter, together with copies of the enclosures to Alex Allen (H M Treasury) and Myles Wickstead (Overseas Development Administration).

*Yours sincerely,*  
*[Handwritten signature]*

C. D. Powell

Stephen Ratcliffe, Esq.,  
Department of Trade and Industry

RESTRICTED



10 DOWNING STREET

Please telegraph this letter to  
Ankara. Please note that the  
signed letter will follow on  
Monday.

With the compliments of

The Garden Rooms

cc: Department of Trade and  
Industry  
H M Treasury  
ODA



10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

6 May 1988

*Dear Mr. Ozal,*

When we met last month in Ankara we discussed among other things two important projects - the Third Bosphorus Bridge and Istanbul Urban Expressway - for which British companies are bidding. I subsequently talked to Mr. Dalan in Istanbul about these projects.

I thought you should know, since these ventures are an important aspect in our commercial relations, that I have written to Mr. Dalan offering to pay for technical studies which will help establish a sound design for the Bridge and permit preliminary site investigations to be made for the Expressway. In view of the likely difficulties in financing these projects, we have offered to meet the costs of independent studies of limited recourse methods of financing, such as BOOT and leaseback, drawing upon innovative Turkish work in this field.

I am confident that the outcome of these studies will allow the project to proceed on a sound basis and improve the prospect of attracting international financing, in addition to the generous aid support we have offered to provide. I have suggested as a first step that a team of United Kingdom Government officials should visit Turkey to discuss the terms of reference.

*Yours sincerely*

*Margaret Thatcher*

His Excellency,  
Mr. Turgut Ozal



10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

In my letter of 19 April, I said that I would be in touch with you again shortly in order to give you a considered reply to the proposals you made to me at our meeting in Istanbul.

You suggested then that the Third Bosphorus Bridge and Istanbul Urban Expressway projects might be linked in some way. There could well be advantage in this: an integrated approach to Istanbul's traffic problems is needed, and the economic viability of the projects would be improved if completed at the same time.

I agree also with you that a joint Turkish-United Kingdom approach would be best, drawing upon the strengths of able Turkish contractors, such as ENKA and ESKA, and upon the competence of major British companies like Tarmac/Wimpey and Trafalgar House (Cleveland Bridge and Engineering), who enjoy the full confidence and support of the British Government. In response to your ideas, I have some proposals to put forward which we believe will lead to soundly designed and well-financed projects.

British firms, together with Turkish and Japanese partners, have advanced an attractive and technically and financially sound proposal for the Expressway, which has been accepted by you. The British Government has also made a

generous offer of aid support, (at a rate of 30.1 per cent of the United Kingdom content, the same rate as that offered for the Bridge). If advantage is to be taken of this aid offer, which cannot be extended indefinitely, it is important that early progress be made. If you were prepared to give me your personal assurance that you will proceed with the TWEEK Joint Venture, the British Government would be willing to pay for a preliminary site investigation together with a study of alternative methods of financing the project, such as BOOT and lease-back, the study to be carried out by independent and internationally recognised financial advisers, drawing upon the innovative work of Turkish Government agencies.

Several bids have been submitted for the Third Bosphorus Bridge. They are not, however, comparable. Not all incorporate a proven design and only one, that put in by the Turkish-UK Joint Venture of ENKA and Cleveland Bridge and Engineering, offers full BOOT financing. Any bridge over the Bosphorus must be of sound design, both for reasons of safety and to attract international financing, and I am sure you are about to take steps rigorously to evaluate the various designs. With this in mind, the British Government is ready to assist you by paying the offshore costs of a technical evaluation to be carried out by an independent and recognised international authority or consultants. Its purpose would be to establish a design specification, which would ensure the Bridge's durability in service, and to assess and evaluate the extent to which designs submitted meet that specification.

We are ready also to assist you to examine how best to finance the Bridge, whether with limited recourse or otherwise, by paying for a study again to be carried out by independent and internationally recognised financial advisers. These offers are made on the understanding that you share our wish that the Bridge project be executed as a Turkish-UK venture. Technical and financial evaluations are, in our view, essential, if the project is to attract international finance which will be forthcoming only for a

bridge of validated design and supported by a sound financial structure. Equally, UK Government aid, a key component in the financing, will be available only in support of a validated design, UK engineering, manufacture and construction, with UK contractors working together with Turkish contractors of such standing as ENKA and STFA. UK aid could not be offered merely for the supply of materials, steelwork and cables.

In a spirit of Turkish-UK co-operation, we have tried to find ways constructively to respond to your suggestions and to enable you to make early progress with both projects. If, as I hope, these offers of free technical and financial studies, which we estimate will cost up to £1 million, are acceptable to you, the next step should be for a team of UK Government officials to visit Turkey to discuss terms of reference. I look forward to hearing from you very soon through our Ambassador, Mr. Daunt.

The Lord Mayor of Istanbul

HM TREASURY - MCU

REC. 09 MAY 1988

ACTION

THE PRIME MINISTER



10 DOWNING STREET  
LONDON SW1A 2AA

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REC.	09 MAY 1988
ACTION	CST
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9/5

9 May 1988

*[Handwritten signatures and initials]*  
PPS pt *[Signature]*

*Dear Lord Ragon,*

In my letter of 19 April, I said that I would be in touch with you again shortly in order to give you a considered reply to the proposals you made to me at our meeting in Istanbul.

You suggested then that the Third Bosphorus Bridge and Istanbul Urban Expressway projects might be linked in some way. There could well be advantage in this: an integrated approach to Istanbul's traffic problems is needed, and the economic viability of the projects would be improved if completed at the same time.

I agree also with you that a joint Turkish-United Kingdom approach would be best, drawing upon the strengths of able Turkish contractors, such as ENKA and ESKA, and upon the competence of major British companies like Tarmac/Wimpey and Trafalgar House (Cleveland Bridge and Engineering), who enjoy the full confidence and support of the British Government. In response to your ideas, I have some proposals to put forward which we believe will lead to soundly designed and well-financed projects.

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generous offer of aid support, (at a rate of 30.1 per cent of the United Kingdom content, the same rate as that offered for the Bridge). If advantage is to be taken of this aid offer, which cannot be extended indefinitely, it is important that early progress be made. If you were prepared to give me your personal assurance that you will proceed with the TWEED Joint Venture, the British Government would be willing to pay for a preliminary site investigation together with a study of alternative methods of financing the project, such as BOOT and lease-back, the study to be carried out by independent and internationally recognised financial advisers, drawing upon the innovative work of Turkish Government agencies.

Several bids have been submitted for the Third Bosphorus Bridge. They are not, however, comparable. Not all incorporate a proven design and only one, that put in by the Turkish-UK Joint Venture of ENKA and Cleveland Bridge and Engineering, offers full BOOT financing. Any bridge over the Bosphorus must be of sound design, both for reasons of safety and to attract international financing, and I am sure you are about to take steps rigorously to evaluate the various designs. With this in mind, the British Government is ready to assist you by paying the offshore costs of a technical evaluation to be carried out by an independent and recognised international authority or consultants. Its purpose would be to establish a design specification, which would ensure the Bridge's durability in service, and to assess and evaluate the extent to which designs submitted meet that specification.

We are ready also to assist you to examine how best to finance the Bridge, whether with limited recourse or otherwise, by paying for a study again to be carried out by independent and internationally recognised financial advisers. These offers are made on the understanding that you share our wish that the Bridge project be executed as a Turkish-UK venture. Technical and financial evaluations are, in our view, essential, if the project is to attract international finance which will be forthcoming only for a

bridge of validated design and supported by a sound financial structure. Equally, UK Government aid, a key component in the financing, will be available only in support of a validated design, UK engineering, manufacture and construction, with UK contractors working together with Turkish contractors of such standing as ENKA and STFA. UK aid could not be offered merely for the supply of materials, steelwork and cables.

In a spirit of Turkish-UK co-operation, we have tried to find ways constructively to respond to your suggestions and to enable you to make early progress with both projects. If, as I hope, these offers of free technical and financial studies, which we estimate will cost up to £1 million, are acceptable to you, the next step should be for a team of UK Government officials to visit Turkey to discuss terms of reference. I look forward to hearing from you very soon through our Ambassador, Mr. Daunt.

*Kind regards.*

*Yours sincerely*

*Raymond Dalrymple*

The Lord Mayor of Istanbul

COVERING CONFIDENTIAL

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

C D Powell Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
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01-215 7877

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Fax 01-222 2629

CH/EXCHEQUER	
REC.	27 JUN 1988 ✓ 27/6
ACTION	CST
COPIES TO	

Direct line 215 5422  
Our ref DW4AFW  
Your ref  
Date 27 June 1988

Dear Charles,

### THIRD BOSPHORUS BRIDGE AND ISTANBUL EXPRESSWAY

On 9 May, the Prime Minister wrote to Bedrettin Dalan, the Mayor of Istanbul, responding to his suggestion that the Third Bosphorous Bridge and Istanbul Expressway projects be combined in some way. I enclose the Mayor's reply together with a telegram from Ankara with our Ambassador's comments. Mr Dalan does not mention the Bridge, decisions on which we believe have been postponed until next year. He has accepted the Prime Minister's offer of funding for studies related to the Expressway, to be undertaken after Tarmac/Wimpey have agreed a contract with the Municipality and to be completed before the contract becomes effective. This is tantamount to the personal assurance that the contract would be awarded to Tarmac/Wimpey which the Prime Minister sought from Mayor Dalan.

However, the Ambassador warns that the Turkish Government has yet to take the formal decision to allow the Expressway project to go ahead. Mr Daunt is to see Yusuf Ozal as soon as possible to clarify the situation.

In the meantime, we are discussing with Tarmac/Wimpey the content and cost of the studies. We would propose then to respond to the Mayor's letter by asking the Ambassador to call on him to explain the next steps. At present, a further letter from the Prime Minister is not, in our view, necessary.

**dti**

the department for Enterprise

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

*Yours sincerely*

*Steph Ratcliffe*

STEPHEN RATCLIFFE  
Private Secretary

10 June 1988

*Dear Prime Minister,*

I thank you for your letter of 09 May, and having given the matter due consideration, I am pleased to inform you that it has been decided by the Turkish Government that the Istanbul Urban Expressway project, as submitted by the TWEEN Joint Venture, has been given urgent priority over other projects,

In view of the above, the Municipality would much like to accept your generous offer of additional funds for support studies for the Urban Expressway project. Following the agreement of two parties on the conditions of the contract, TWEEN can immediately initiate the studies mentioned below in accordance with our relevant tender specifications:

- a) a detailed survey of the proposed route,
- b) Development of the final alignment to enable TWEEN on behalf of the Municipality to establish the extent of necessary land acquisition, demolition and work associated with adjacent antiquities and historic buildings.

As these two technical studies can be readily carried out by TWEEN in the period prior to the effective contract, they will greatly speed the project to an early completion. To commence the studies following the said agreement, the Municipality will be pleased to accept the sum of \$ 600.000 of the estimated £ 1 million kindly placed at its disposal for the purposes.

Please accept my thanks for your continuing active interest in our city.

*Kind regards  
Yours sincerely*

The Prime Minister



METROPOLITAN MUNICIPALITY OF ISTANBUL

BELEDİYE SARAYI SARAÇHANE-İSTANBUL TURKEY PHONE: (90-1) 5262842-5282848

19/1616

CONFIDENTIAL

141051  
MDLIAN 5639

c Mr Mellett (ODA)  
Mr George (ECGD)  
Mr Heard (ODA)

CONFIDENTIAL  
FM ANKARA  
TO PRIORITY DTI  
TELNO OTTER 0113  
OF 160640Z JUNE 88  
INFO PRIORITY FCO, ECGD, ISTANBUL  
INFO ROUTINE TOKYO

FOR WHEELER, PEP1 AND OT4

ISTANBUL TEL NO OTTER 30:

THIRD BOSPHORUS BRIDGE AND ISTANBUL EXPRESSWAY

1. DALAN'S LETTER IS ENCOURAGING ABOUT THE EXPRESSWAY BUT WE CANNOT TAKE IT AT FACE VALUE. IT APPEARS THAT THERE IS STILL NO FORMAL DECISION BY THE TURKISH GOVERNMENT TO GO AHEAD WITH THE PROJECT. I SOUGHT THE REACTION OF CANEVI (HEAD OF TREASURY) ON 15TH JUNE. HE SAID THAT HE HAD JUST HAD A QUOTE FURIOUS ROW UNQUOTE WITH DALAN (CF MY MINUTE OF 8 JUNE). THE SITUATION WAS NOT AS DALAN REPRESENTED IT: IT REMAINED 'CONFUSED'. HE PREFERRED NOT TO GIVE ME A DEFINITE VIEW BEFORE THE RETURN OF YUSUF OZAL (WHO IS IN GERMANY UNTIL 16 JUNE).

2. OUR NEXT STEP DEPENDS THEREFORE ON WHAT YUSUF OZAL HAS TO SAY. I SHALL TRY TO SEE HIM AS SOON AS POSSIBLE AFTER HE RETURNS.

3. IT WILL NOT HAVE ESCAPED YOU THAT DALAN ASKS FOR #600,000 JUST FOR SITE STUDIES ON THE EXPRESSWAY, PAID DIRECT TO THE MUNICIPALITY. HE MAKES NO MENTION OF THE BRIDGE AND IGNORES OUR PROPOSED 'NEXT STEP' OF A VISIT BY A TEAM OF OFFICIALS.

4. IF IT IS CONFIRMED THAT THE EXPRESSWAY IS TO GO AHEAD WITH TOP PRIORITY ON A CONVENTIONAL FINANCING BASIS, YOU WILL WANT TO BE SURE OF GETTING A SATISFACTORY CONCLUSION TO TWEAK'S NEGOTIATIONS ON THE CONTRACT BEFORE ADVANCING ANY MONEY FOR STUDIES (USE CAN BE MADE OF THE REFERENCE IN DALAN'S LETTER TO 'AGREEMENT OF TWO PARTIES ON THE CONDITIONS OF THE CONTRACT'). TARMAC AND WIMPEY'S ADVICE MAY BE NECESSARY.

5. YOU WILL ALSO NEED TO CONSIDER WHETHER A VISIT BY A TEAM OF OFFICIALS IS REALLY NECESSARY IN THE NEW CIRCUMSTANCES WHEN ONLY ONE ELEMENT CAN BE MET. ON THE LATTER ISSUE, IT MAY BE THAT THAT SUM SHOULD BE REGARDED AS THE FINAL AID ELEMENT NEEDED TO CLINCH THE DEAL, RATHER THAN QUIBBLED OVER.

6. DALAN'S OMISSION OF ANY REFERENCE TO THE BRIDGE IS DOUBTLESS SIGNIFICANT. THE PRESS THIS WEEK HAS BEEN SAYING THAT DALAN HAS LOST HIS BATTLE WITH THE SPO. DALAN IS QUOTED AS SAYING THAT IT HAS BEEN POSTPONED TO NEXT YEAR. ON THE BRIDGE TOO, I HOPE FOR MORE DEFINITE INTELLIGENCE FROM YUSUF OZAL BUT IT SEEMS INCREASINGLY LIKELY THAT IT IS INDEED TO BE POSTPONED.

DAUNT

YYYY

DISTRIBUTION

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MAIN 5

NO DISTRIBUTION  
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DTI/OT4

ECGD  
COMED  
SED

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