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PRIME MINISTER

LEYLAND BUS: BANGKOK

Since my minute of 1[/] May, we now have more information about Belgian financing intentions on the £450m Bangkok bus project. On the assumption that the project will be divided into phases, the Belgian official agencies are - as a result of their Prime Minister's offer in Bangkok - offering a subsidy equivalent to £21m towards a contract worth approximately £80m. This represents a subsidy level of about 26%.

The Belgians have quite clearly broken the no-aid agreement. However, if one accepts their assumption that the project will be broken down into phases, their proposed offer is framed so that it falls within the OECD rules on levels of subsidy. In short, it could be portrayed as being consistent with the international guidelines on associated financing.

With the Belgian offer in the background, the Thais are pressing hard for an offer of aid from HMG. If none is forthcoming, they threaten to abandon the Leyland bid and begin negotiations with others, notably the Belgians. Having been selected as the favoured bidder and called in for substantive negotiations before submission of recommendations to the Thai Cabinet, Leyland are in a vulnerable position. If they fail to satisfy the evaluation



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committee on aid and are knocked out of the running at this stage, the Thais could well not recall them for negotiations for even a part of the full £450m contract.

This situation poses an awkward dilemma. An aid grant within the OECD rules for a project of this size would be prohibitively large - £112m. This is not a realistic option against a total ATP budget of £66m per annum. We are therefore left with two choices. We could refuse aid (apart from a minimal \$1 million for technical co-operation) and rely on any further price cuts Leyland may be able to make to clinch the contract. Or we can match the £21m ^{over three years} amount (but not the subsidy level) of the proposed Belgian offer. The latter would involve breaking the OECD rules on mixed credits.

If we refuse to back Leyland with the £21m aid, there is a real risk that they will lose all the business. As you know the order is highly significant, being large enough to have a substantial impact on Leyland Bus's prospects over the next few years. In particular I believe that it would substantially enhance the chances of early privatisation of the company, whether through SALTON negotiations or otherwise. In the circumstances I do not think we can stand by and risk Leyland losing this contract due to the unscrupulousness of competition. By providing matching aid I realise that we would stand accused of breaching the OECD guidelines, but I believe our action would be defensible



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considering the behaviour of the Belgians in breaking the no-aid agreement. Certainly I would rate any OECD opprobrium a great deal less than the domestic political difficulties, particularly so soon after the Bosphorus bridge, which we would face if Leyland were seen to have lost this contract because of our continued determination - despite the Belgians - to 'play cricket'.

I am therefore writing to seek colleagues' urgent agreement to the following support for Leyland involving:-

- i a matching ATP offer of £21m; and
- ii effective exhaustion of the present ECGD Section 2 cover for Thailand in order to accommodate the project.

To be absolutely sure of not risking Leyland's position this offer should be conveyed to our Bangkok Post before Monday, 6 May. I would therefore welcome agreement as soon as possible today.

I am copying this minute to Geoffrey Howe, Nigel Lawson, Peter Rees and Timothy Raison.


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2 May 1985

Ind. Pol. : BL #9.

25 MAY 1985

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