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*From the Private Secretary*

17 October, 1983

Turkey: Diesel Electric Locomotives

The Prime Minister has seen Mr. Channon's minute of 7 October to Mr. Raison.

Mrs. Thatcher has asked whether she ought to take up with Chancellor Kohl the manner in which official German backing for Krauss Maffei secured the Turkish contract against the bid from Brush Electrical Machines.

It will clearly be necessary to consider whether this case merits high level intervention by the Prime Minister with the German Chancellor, given all the other issues on which we shall need German help in the coming months. I should therefore be grateful if your reply on this matter could be co-ordinated with the Foreign and Commonwealth Office.

I am copying this letter to the Private Secretaries of other members of EX and Sir Robert Armstrong.

A. J. COLES

Jonathan Rees, Esq.,  
Department of Trade and Industry



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From the Minister for Trade

The Rt Hon Timothy Raison MP  
Minister for Overseas Development  
Overseas Development Administration  
Eland House  
Stag Place  
London SW1E 5DH

Prime Minister (4)

AT  
10/10John - Can  
we take this up  
with Kohl?

7 October 1983

Dear Tim

#### TURKEY: DIESEL ELECTRIC LOCOMOTIVES

I have received strong representations from Hawker Siddeley to offer further support for their attempt to win an order for 50 diesel electric locomotives for the Turkish State Railways against German and Japanese competition. A copy of their latest letter is attached. Although it is now too late to take further action, the case is illustrative of the practices of our competitors and I feel that I should bring the circumstances to the notice of you and EX colleagues.

Briefly the background is as follows. Brush Electrical machines, a Hawker Siddeley subsidiary manufacturing railway locomotives, tendered earlier this year for a £18M contract for locomotives for the Turkish Railways. Their bid was the lowest in price, beating both the Germans and Japanese. A German company, Krauss Maffei with GEC Traction as their sub-contractor, emerged as the main competitor, principally because of their ability to offer a mixed credit backed by the German Government. In order to maintain Brush on an equal footing, we sought agreement to an allocation from the ATP Fund with a normal grant element of 25.1%. It soon became clear, however, that our terms would not be sufficiently attractive since the German aid offer covered some 55% of the contract value (approximately 36% grant element). It was with some difficulty that officials were eventually able to agree an increase in the ATP offer to a level of 36% grant. In response, however, the Germans again increased their aid to 66.5% of contract value (approximately 44% grant element). On that basis Turkish Railways have decided to award them the contract.

Because I am advised that there is no prospect of our now re-opening the negotiations, I am not seeking agreement to our matching the latest German terms. There are nevertheless certain aspects of the case which I believe should be noted:

- (a) At all points the Brush bid was the most competitive in terms of price and their technical specification was fully in line with Turkish requirements, unlike the Japanese for example. Moreover, there was a very powerful industrial and commercial case for our backing the company's efforts.

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- (b) The West German government showed no inhibition about using aid, in the form of mixed credit, to secure this strategic order. We can confirm Hawker Siddeley's claim that they have adopted similar tactics to break into a number of developing markets which formerly have been traditional purchasers of British railway equipment. The French and Japanese, as well as other countries, also follow such an approach.
- (c) Throughout the competition, the UK limited itself to trying to match the West Germans, thereby allowing them the initiative at every stage.
- (d) The underlying purpose of each German offer was to offset the greater competitiveness of the Brush bid: the level of their aid was deliberately set so as to preserve a differential in price/financial terms favourable to their chosen supplier.
- (e) Their underlying commercial motive was further evident from their refusal to disclose the precise terms of their offers: it was only late in the day that Brush, by various means were able to establish that an improved offer had covertly been made.

It is cases like this which, in my view, justify the need for a strong ATP facility which can be used flexibly and confidently. The actions of the West Germans on this occasion certainly put into perspective the fears which are sometimes expressed that the use of mixed credits on our part might encourage a credit race. I am afraid that the conclusion has to be that mixed credits are already a normal element within our competitors' export strategies.

Finally, I should record that GEC Traction will gain an order worth £7M as a result of the success of Krauss Maffei. This, however, is nowhere near the value or the importance of the order to Brush, our only manufacturer of large main-line locomotives, whose order book is virtually empty and who will have to declare a substantial number of redundancies unless further work can be won in the near future.

I am sending copies of the correspondence to members of EX Committee, to Sir Robert Armstrong and to our Ambassador in Ankara.

PAUL CHANNON