



OVERSEAS DEVELOPMENT ADMINISTRATION
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From the Minister

24 October 1983

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade and Industry
1 Victoria Street
LONDON SW1

Await JTI and FCO.

*ARL 25
/w.*

Dear Paul

TURKEY: DIESEL ELECTRIC LOCOMOTIVES

Thank you for your letter of 7 October. I, too, am concerned about the Germans' actions in this case. It indicates both how easy it would be to slip into a credit race; and how expensive it can be to win. We need to bear in mind that Germany has a far bigger aid programme to Turkey than we do, and along with France and Japan, a far larger aid programme than ours world-wide.

I am not sure that I can agree with your implication that there was too little flexibility in our actions on this case: I think we acted both flexibly and promptly. After all, our original offer had a grant element of just over 25 per cent whereas the German offer we were "matching" had a grant element of only 20 per cent.

The real problem is that we finally found ourselves not in the business of matching mixed credit finance on the usual basis, but money which was largely a very soft aid loan with an admixture of buyer credit, producing a much higher grant element. ATP is not designed for that kind of operation. Save in exceptional cases I think it is unwise to offer under the ATP UK packages with grant elements substantially in excess of the usual norm of some 25 per cent to buy business: you will recall that the Treasury were unhappy even that the final British matching offer amounted to a 36.5 per cent grant element. Where our competitors are utilising normal aid money in their bid I do not think it is possible for a combination of ATP grant and ECGD credit to win an 'auction' for the business. In this case the German money was, we understand, in part aid funds for Turkey unallocated from previous years' aid programmes used to top up the DM20 million from the 1983 programme. The Turks could have proposed other ways of using this to the Germans. Our own offer involved new money, with the aid (ATP) grant available to the Turks only for this contract - this ought to have weighed heavily in our favour. It is a pity that this was not made amply clear to the Turks or, if it was, that it weighed so little with them; perhaps they were seeking a way of allocating unused German aid funds.

/I welcome



I welcome the Prime Minister's interest in this (No 10's letter of 17 October). I do not myself think that the present case would merit the matter being raised at Prime Ministerial level. The successful German offer does not involve any breach of the OECD agreements on mixed credits. Nevertheless, our concern about the increasing competitive use of mixed credits and the way in which developing countries can play off one donor against another is well illustrated by this case. I hope to be able to use the opportunity of my bilateral discussions in Bonn on 21 November to raise the general question.

I am copying this letter to the recipients of yours.

A handwritten signature in black ink, consisting of a stylized 'T' followed by a horizontal line and a vertical line, resembling the letters 'T L'.

TIMOTHY RAISON

TURKEY: Anglo-Turkish Pets

Nov. 79

24 Oct 1983

