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Treasury Chambers, Parliament Street, SW1P 3AG

h.a.

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade and Industry
1 Victoria Street
LONDON SW1H 0ET

14 November 1983

Dear Minister

TURKEY: DIESEL ELECTRIC LOCOMOTIVES

Thank you for sending me a copy of your letter of 7 October to Timothy Raison. I have also seen Mr Cole's letter of 17 October and Timothy Raison's reply of 24 October.

It is of course regrettable that the Germans should have secured this contract against a more competitive British bid by offering an excessively generous aid and credit package. I agree with Timothy Raison that this particular case is not a matter of sufficient importance to warrant the Prime Minister's personal intervention, but it would be useful if he could raise the general question of the wasteful competition in mixed credits when he meets his German counterpart in Bonn next month.

Whilst I fully understand your disappointment at the loss of this particular contract, I think we must be careful not to draw hasty conclusions for our general policy on mixed credits from what has happened in this case. As Timothy Raison points out, the Germans here were offering aid from their bilateral programme in conjunction with export credit. ATP is not designed to match the sort of grant element that such a combination is likely to produce. The final UK offer in this case was already way above the agreed subsidy threshold for ATP cases and any further improvement could not possibly have been justified in economic terms. Nor do I follow your argument that we might have won the contract if the UK aid offer had been made earlier - ie. as an initiation. It seems more likely that this would just have started the aid auction from a higher base. It is not in our overall interest to be seen to be using mixed credits more aggressively. We have always recognised that if a mixed credit war ever broke out in earnest (eg. with full US participation) the UK simply has not got the resources to compete. This is why we should in my view be seeking every means of securing international agreement to restrict the use of mixed credits and similar techniques.

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Finally, we should not forget that the successful German tender includes a substantial UK sub-contract. Had we succeeded in securing the main contract for the British bid by a massive increase in our already generous ATF offer, we might now be in some difficulty to explain why we had spent £8-9m to buy £15m exports for Brush when we could have had £7m exports for GEC at no cost to the British taxpayer.

I am copying this letter to recipients of the previous correspondence.

Yours sincerely

J. G. G. G.

for PETER REES

[Approved by the Chief Secretary]

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Anglo-Turk. Relat.
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