

*C. The Wiggins**NO*FCS/85/10

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CHIEF SECRETARY TO THE TREASURY*Wagon
JMB
21/1*Turkey: Second Bosphorus Bridge

1. I have seen Norman Lamont's letter of 14 January asking you to reconsider your position on ECGD and ATP cover for Cleveland Bridge's bid for the above project (your letter of 21 December to Paul Channon). I support this request:

2. In her letter of 28 December, which I understand you received too late to take into consideration in reaching your earlier decision, Janet Young set out the reasons why we set so much store on a successful Cleveland Bridge bid for this project and would like to see it accorded a high priority.

3. The Ministerial decision to refuse cover on the proposed sale of Tornado has already been fully aired in the UK and Turkish press and some unwelcome inferences drawn. The Turks will certainly consider it very odd indeed if we do not pull out all the stops to secure this business and will begin to question the seriousness of our oft-repeated wish to participate fully, and to our mutual benefit, in their economic rehabilitation and recovery. You will recall that the BOTB mission to Turkey last autumn which was led by the Duke of Kent was intended to get over just that message.

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4. Timothy Raison has now approved a revised package involving ATP provision of 25.1% of the UK content up to a maximum of £10.4 million, on a conditional matching basis, provided that the complementary ECGD cover which is needed can be agreed. Against that background, I hope that you will feel able to reconsider your decision.

5. I am sending copies of this letter to the Prime Minister and Norman Lamont.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
21 January 1985

TRADE:

Non Tariff

pt 4

27 JAN 1983



From the Minister of State for Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

Norman Lamont MP

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

Handwritten notes:
~~DAT~~ to me
2) Answer CS reply
CS

14 January 1985

Handwritten signature: Peter Rees

THE SECOND BOSPHOROUS BRIDGE

You wrote to Paul Channon on 21 December about the Second Bosphorous Bridge contract in Turkey which Cleveland Bridge are trying to win. You felt able to agree a small increase in ECGD cover on Turkey, but not the £10m ATP which Cleveland - and ourselves - judge essential if they are to stand any chance of success against competition supported by aid.

I hope that you might reconsider the position. I have this week met representatives from Trafalgar House, Cleveland's parent. Quite apart from the jobs created and safeguarded in the North East and North West, there are three main reasons why the contract is of particular importance. The issues involved go beyond a narrow consideration of the present ECGD limit for Turkish business.

First, as Janet Young has emphasised since your reply, the project is of real political importance. The first bridge is a national landmark. We built it. We do not wish to be upstaged by the Japanese winning the second bridge.

Secondly, it maintains Cleveland Bridge's world position as a long span bridge builder. They will certainly lose reputation if they lose the contract, and the Japanese will gain. Such a bridge is almost certainly within Japanese potential capability, but to date they have not had the chance to prove it internationally. More importantly, Cleveland will find it extremely difficult to maintain - let alone develop - their own capability if they lose the contract. Their engineering and design teams will break up, with expertise lost to Cleveland's overseas competition. Their ability to compete for prospective business in China (a £100m contract) the USA (£200m+) and Portugal (£25m+) will be significantly diminished.

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Thirdly, Cleveland's capabilities have, to a significant extent, been assisted by UK developments over the last 20 years. They built the Forth, Severn and Humber road bridges. Against the increasing calls for UK infrastructure work - most recently and clearly voiced this week both in Parliament and the NEDC - we have said that civil engineering and construction companies can benefit from overseas opportunities. This is just such an opportunity, and politically a very visible one. Yet we are withholding from Cleveland the opportunity that £10m ATP would provide for them to bid on anything approaching equal terms with their Japanese competition.

Cleveland will not win without some aid input. The Japanese have made a dead-set at the contract. Recognising the nature of the international market, the Japanese Government are providing Nippon Steel with financial assistance which has allowed an offer to the Turks of the loan in excess of £80m at 4% interest over 25 years. The company have received this backing despite the fact that its own assets and turnover dwarf the Trafalgar Group's. Without some aid offer on our part, and our £10m proposal is substantially less than the Japanese, the Turkish Government will find it extremely difficult to resist the Japanese bid. They will conclude, understandably, that we are not prepared to make the necessary effort to win the business.

Cleveland have shown their commitment and have marketed aggressively over recent months, up to the Turkish Prime Minister. They have made arrangements to raise over £100m in loans over and above those covered by ECGD to meet the local costs of the associated road network. They have offered 50% risk-sharing on the balance of the off-shore bridge element against the ECGD norm for the market that 40% of risk be taken by the commercial parties. As Airbus showed the 40% figure is itself proving very demanding for the British banks.

The ATP we are proposing is a good deal less than the Japanese offer. Cleveland recognise this, but believe that it allows them the opportunity to edge the Japanese out. The only way they can bid without ATP is to source all their materials and equipment elsewhere, and hope to win aid from other governments. By so doing, however, they will effectively be transferring jobs and technology overseas - quite possibly, irretrievably. Loss of fabrication work would be a severe blow to their modern facility at Darlington where up to a 1000 jobs would be put at risk. Indeed, they have already begun lay-offs. In these circumstances, work sourced abroad would be much criticised.

With this rather fuller explanation of our position, I hope that you will now feel able to agree our ATP proposal of 25.1% on a UK content of £40m.

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I am copying this to the Prime Minister and Sir Geoffrey Howe.

*Yours
Norman*

NORMAN LAMONT

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