E.R.

PRIME MINISTER

BOSPHOROUS BRIDGE

Michael Fallon, MP, and Richard Hickmet, MP, are coming to see you on Thursday to press the case for credit cover and ATP help for Cleveland Bridge to win the contract for the second Bosphorous Bridge. They are up against heavily subsidised Japanese competition.

The background is explained in the attached papers. The problem in summary is:

(i) Turkey is a poor credit risk;

(ii) only £20 million cover out of the £200 million ceiling remains unused. Sale of Airbus to Turkey used £169 million.

(iii) there are many companies seeking business in Turkey which would use up the remaining £20 million many times over. Cleveland Bridge are asking for £26 million (+£10 million ATP). But NEI also have power station business for which they want £45 million credit cover.

(iv) Treasury are unwilling to increase the ceiling (particularly given ECGD's poor trading position). If a decision has to be made on competing bids, they would prefer NEI's unsubsidised business to the Cleveland Bridge's subsidised business.

(v) DTI want to support both Cleveland Bridge and NEI which would mean increasing the ceiling to £245 million.

(vi) loss of either order would cause unemployment in the North East.

An attempt is being made to settle between DTI and Treasury, but will probably fail. In that event, until we can get Ministers together for a decision in EX, you can do little more than promise the MPs that the case for Cleveland Bridge is recognised but it has to be judged against competing claims.

C.D.P.

5 February, 1985.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215)
(Switchboard) 215 7877

From the Minister for Trade

4 February 1985

David Barclay Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Mr Powell

Dear David

SECOND BOSPHOROUS BRIDGE: MEETING WITH MICHAEL FALLON MP AND RICHARD HICKMET MP

Thank you for your letter of 29 January. I enclose a suggested line for the Prime Minister to take when she meets Mr Fallon and Mr Hickmet to discuss the second Bosphorous bridge. The line has been agreed with the Treasury and the FCO. It is necessarily brief given the differences which still exist between Treasury, and ourselves and the FCO.

2 The background to the case remains as outlined in the note attached to my letter of 28 January. This was supplemented by Richard Broadbent's letter of 30 January.

3 I shall forward a reply for the Prime Minister to send to Mr Hickmet, but we would prefer first to await the outcome of the Prime Minister's meeting and other Ministerial considerations which may follow in the hope that this will allow something more substantial to be sent to him.

4 I am sending copies of this letter and enclosure to Peter Ricketts (FCO), John Ballard (Department of the Environment), David Normington (Department of Employment), Richard Broadbent (Treasury), and Hugh Taylor (Home Office).

Yours ever

Steve

STEPHEN NICKLEN
Private Secretary to the
Minister for Trade

JH1BVB

999-3

BRIEFING FOR PRIME MINISTER'S MEETING WITH MR M FALLON MP AND MR R HICKMET MP

TURKEY: SECOND BOSPHOROUS BRIDGE

Line to take

1 Express sympathy for case outlined by MPs. This case is, however, complex and there are several factors which must be taken into account.

2 ECGD's existing credit cover for Turkey is tight and there are many potential demands upon the cover still available.

3 The ATP case in support of Cleveland Bridge cannot be looked at in isolation. Other business competing for ECGD's available cover must be taken into account.

4 The matter will be resolved as quickly as possible.

CONFIDENTIAL

c Mr Wiggins
Cab off.

CHIEF SECRETARY TO THE TREASURY

Mr Powell 30/i
Tovee
Duns
30/.

Treasury Chambers, Parliament Street, SW1P 3AG

D Barclay Esq
10 Downing Street
LONDON
SW1

30 January 1985

Dear David

SECOND BOSPHORUS BRIDGE

Steven Nicklen sent me a copy of his letter of 28 January, about the Prime Minister's coming meeting with Mr Fallon and Mr Hickmet, when they are likely to lobby her about the Cleveland Bridge bid for the Second Bosphorus Bridge.

The note enclosed with Steve's letter was not cleared with the Treasury although we do not seriously dissent from it. Following your letter yesterday we will be agreeing a line to take with the Department of Trade and Industry.

The Chief Secretary thinks it particularly important however to remind the Prime Minister of the background to the present position.

Including cover for contracts on cash terms the ceiling for ECGD cover in Turkey is £200 million. Some £180 million of this is already committed, £169 million in respect of British Aerospace business mainly relating to the order we recently approved for Airbus. As we knew at the time, committing such a high proportion of cover to one supplier would face us with difficult decisions about allocating the remaining £20 million of cover. Business worth many times this is under negotiation. The Bosphorus Bridge would use all that remains plus a small increase (£6 million). It would also require a £10 million ATP subsidy.

The Turkish economy ran into serious trouble some six years ago, and there were a number of concerted international rescue operations, to which the UK contributed. As a result, no further ECGD cover was granted for some years. Cover was resumed in July 1983, on the basis of a marked improvement in their prospects and performance and the amount of cover that could be made available was increased in April 1984 in response to the demand for cover. Recently there have been signs of faltering. The Joint Intelligence Committee reviewed the situation recently, and concluded that there was a risk of further rescheduling. In the circumstances the Chief Secretary is most reluctant to go beyond the limit of £200 million.

There are lots of claimants for this cover. The Bosphorus Bridge is the first one in time; but there is also a major NEI bid for a nuclear power station (which will require, on present assumptions, increasing the limit to about £225 million, rather than the £206 million needed for the bridge); and more distantly, BAe have still not given up hope that they might be able to secure some limited amount of cover for the Tornado contract (the original proposal for which Ministers agreed last November should be refused). In addition there is a lot of smaller business.

ECGD's accounts for 1983-84 will be published tomorrow. They will show a marked deterioration in the trading position in that year, which is expected to continue during the current year and in 1985-86 (for which the Chief Secretary has just received the Estimate). The Chief Secretary will be discussing ECGD's financial prospects with Mr Channon shortly, on the basis of a new Business Plan. Meanwhile he thinks it would be most unwise to increase ECGD's exposure in <u>any</u> risky market, and particularly Turkey. For that reason, he will argue at the EX meeting against any further increase, beyond that necessary to accommodate either the Bosphorus Bridge or (possibly) the NEI power station if the size of the contract can be scaled down; certainly not both. Given a free choice, he would obviously prefer the one which does not require a £10 million ATP subsidy.

For these reasons we will be seeking to agree a line to take with the Department of Trade and Industry that makes no commitments to the two MPs who are seeing the Prime Minister next week, pending proper consideration by EX.

I am copying this letter to Peter Rickett (Foreign Office), John Ballard (Department of Environment), David Normington (Department of the Employment), and to Steve Nicklen (Department of Trade and Industry)

Yours ever

Richard

R J BROADBENT
Private Secretary

TRADE
Non-Tariff
Pt 4

30 JAN 1985

CF - BU

c. Mr. Wiggins
Cab Off.

10 DOWNING STREET

From the Private Secretary

29 January, 1985.

Second Bosphorus Bridge: Meeting with Michael Fallon, MP, and Richard Hickmet, MP

I am writing to confirm our telephone conversations earlier today in which I said that the Prime Minister had agreed to meet Mr. Michael Fallon, MP, and Mr. Richard Hickmet, MP, about the second Bosphorus Bridge. The meeting had originally been arranged for this Thursday, 31 January, but has been postponed until next week (probably 5 February) because of the censure debate.

I enclose a copy of a letter to the Prime Minister from Mr. Hickmet which sets out his case in some detail. I should be grateful if you could provide a draft reply for the Prime Minister to send after the meeting.

I should also be grateful if you could provide a brief for the meeting. This could perhaps be based on the attachment to your letter to me of 28 January, updated as necessary, and supplemented by a line to take agreed with the Treasury.

I am sending copies of this letter and enclosure to Peter Ricketts (Foreign and Commonwealth Office), John Ballard (Department of the Environment), David Normington (Department of Employment), and Richard Broadbent (Chief Secretary's Office, HM Treasury).

David Barclay

Steve Nicklen, Esq.,
Department of Trade and Industry.

Mtg.

David

Re: meeting with Richard Hickmet
and Michael Fallon - 4.00 p.m.
on Thursday, 31st January

I attach the letter which came to Michael. You very kindly said that you would arrange for briefing.

Tessa
29.1.84

c. Mr. Wiggins for Mtg

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215)
(Switchboard) 215 7877

From the Minister for Trade

David Barclay Esq
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

28 January 1985

Dear David

SECOND BOSPHOROUS BRIDGE

1 I understand that Mr Fallon and Mr Hickmet, the Members for Darlington and Scunthorpe, are seeking a meeting with the Prime Minister to explain their constituency interests in Cleveland Bridge's bid to build the Second Bosphorous Bridge in Turkey.

2 The two MPs met my Minister last week. He has also had a separate meeting with Mr Doug Hoyle MP. Mr Fallon's constituency includes the Cleveland Bridge steel fabrication plant, and Mr Hickmet's the BSC plant which would provide the steel for the bridge. If Cleveland Bridge were successful in their bid, the Darlington plant would benefit by at least 750 man years work and over £12m sales. The plant at present employs about 1,000 men. It has recently declared 90 redundancies, and more are threatened. The Scunthorpe work would involve some 125 man years, and sales of at least £6m.

3 Cleveland Bridge have been pursuing the contract for nearly a year, but are facing extremely stiff Japanese competition. The Japanese are less experienced in long span bridge building, but are offering a loan on particularly advantageous terms which amount to a subsidy of about 50%. As a result, Cleveland Bridge and this Department feel that they have no chance of following up on their success in building the first bridge without assistance from the Aid and Trade Provision (ATP). As the attached background note explains, we have so far failed to reach inter-departmental agreement that this assistance should be provided. Mr Channon has advised my Secretary of State to take the case to EX.

4 I am copying this letter and attachment to Peter Ricketts (Foreign and Commonwealth Office), John Ballard (Department of the Environment), David Normington (Department of Employment) and Richard Broadbent (Treasury).

Yours ever

Steve

STEVE NICKLEN
Private Secretary to
the Minister for Trade (PAUL CHANNON)

999-3

CONFIDENTIAL

CONFIDENTIAL

SECOND BOSPHOROUS BRIDGE: CLEVELAND BRIDGE BID

Cleveland Bridge, a Trafalgar House subsidiary, are bidding to construct the Second Bosphorous Bridge in Istanbul. The UK content of the contract, which involves steel, cable, fabrication and management work amounts to some £40m. Cleveland built the first bridge (1973) very successfully, and have a worldwide reputation for long-span bridge construction. But the main Japanese competition, anxious to break into the international market, are offering soft finance which amounts to a price subsidy of around 50%. To help counter this, Cleveland Bridge have sought ATP support of £10m.

The Problem

Present ECGD credit cover for Turkey is limited: the British Aerospace share of Airbus sales in December 1984 drastically reduced the cover available. As a result, it has been impossible to reach agreement that ATP be offered on a contract that would take up all the remaining credit cover. A decision is needed by early February to allow Cleveland Bridge to respond to the Turkish Government tender, and it is likely - following inconclusive ministerial correspondence - that the issue will be taken to EX.

Background

Some 2,000 man years would flow from a successful bid by Cleveland Bridge for the contract. It would have a particular impact on employment in the North East, where Cleveland Bridge's Darlington fabrication plant is facing redundancies against a dwindling order book. Cleveland argue that without this contract they would be at a real disadvantage in bidding for other overseas business, totalling over £250m in the next 5-10 years. Cleveland Bridge could seek to reduce their bid to a project management function, and instead source overseas with foreign subsidised materials. To do this would be sensitive in terms of employment, and would undermine the attraction of the contract in respect of our diplomatic and longer term commercial relations with Turkey. The first bridge is a national landmark, and acclaimed as an example of British technology and co-operation. For this reason, the request for ATP has been supported by the DTI and FCO.

The Treasury is opposed to offering ATP. It has argued that the Turkish economic outlook does not justify an increase in ECGD's exposure in the market, and that the limited cover remaining should be taken up by business on more commercial terms. As an example of such business, it has specifically referred to NEI's interest in sourcing turbine generators as part of a Canadian led consortium negotiating a contract for a £1bn nuclear power plant in Turkey.

The NEI bid is at advanced stage of negotiation, and has very similar industrial and commercial merits to that of Cleveland Bridge's. Again, some 2,000 man years work would flow from the contract, also with a bias towards hard-pressed plant in the North East. If NEI were to withdraw they would jeopardise the chances of winning a £40m contract in Canada and weaken other, more distant, prospects of business in partnership with the Canadians. But in order to go ahead with their present bid, NEI need a £18m increase on the present ECGD limit. This, as with the ATP for the Cleveland Bridge bid, we understand the Treasury would also resist.

As matters stand, therefore, neither company can pursue its intended bid. For this reason, following inconclusive ministerial correspondence, it seems likely that the issue of Turkish cover and the related question of ATP for the market will need to go EX shortly.

PEP1/DTI
2155454/5212

28 January 1985