

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T83/85

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EMBASSY OF JAPAN
UNITED KINGDOM

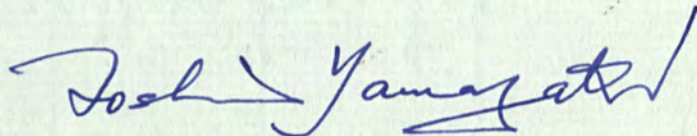
London, 9th May 1985

Dear Prime Minister,

I am asked by Prime Minister Nakasone to refer to your conversation with him in Bonn on 4th May concerning the 2nd Bosphorus Bridge Project, and to deliver to you an explanatory note on this matter.

I have pleasure in attaching the note herewith.

Yours sincerely,



Toshio Yamazaki
Ambassador

The Rt.Hon. Margaret Thatcher, MP,
Prime Minister and First Lord of the Treasury,
10, Downing Street,
London, S.W.1.

**EXPLANATORY NOTE ON THE
SECOND BOSPHORUS BRIDGE PROJECT**

10th May 1985

1. Prime Minister Thatcher pointed out that a British consortium had made the lowest bid for the second Bosphorus Bridge Project. According to the statement by the Turkish Government regarding the results of the bidding, however, the lowest bid was made by the consortium consisting of Japanese, Italian and Turkish companies and the second lowest bid by a consortium consisting of UK, West German, US and Turkish companies. The prices of the lowest and second-lowest bidders for the Project as a whole and Section II (namely construction of the bridge and its connecting roads), respectively, are as follows (in US\$1,000):

	<u>All Sections</u>	<u>Section II</u>
Lowest bidder's price	551,261	269,999
Second-lowest bidder's price	676,424	312,741

As is clear from the above figures, the difference between the lowest and second-lowest bids is considerable. These price differences are clearly admitted by all the companies concerned in the Project, including Turkish companies.

2. The Japanese Government had been studying the possibility of extending a yen loan to Turkey since

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receiving a formal request to do so from the latter in January of this year. The Turkish request was to finance, by yen loan, the entire project consisting of the following four sections:

- 1st being 73 km of highway;
- 2nd being second Bosphorus bridge with 37 km of connecting roads;
- 3rd being 41 km of highway; and
- 4th being 63 km of highway.

Since the feasibility of the entire Project has been confirmed by the mission sent by the Overseas Economic Co-operation Fund (the Government's yen loan executing agency), but because it was impossible to finance the entire Project by yen loan as requested by the Turkish side, the Japanese Government, from the point of view of promoting friendly relations between Japan and Turkey, has pledged that it is prepared to extend a yen loan up to the amount of 51.6 billion yen in respect of only the second section of the Project, namely the bridge and its connecting roads.

Nine international consortia took part in the tender, which covered all four sections of the Project. Japanese companies participated in four of the nine consortia. It should be noted that it was to the Turkish Government, and not to the lowest bidder group, that the Japanese Government offered the loan.

It is simply not true that the Japanese Government or companies have allegedly approached the Turkish side with a view to having the connecting roads included in the second section in addition to the

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bridge itself. It was solely a decision made by the Turkish side.

It seems that the UK side takes the view that, if the second section had consisted only of the bridge itself, excluding the connecting roads, it would have been advantageous for the UK consortium. However, it should be noted that the Turkish decision to divide the project into sections in the way described above, had left no option of taking up the bridge alone.

3. Upon a strong request made by the Turkish Government, the consortium which made the lowest bid seems to have made a financial arrangement for Sections 1, 3 and 4. This arrangement, however, is purely private in nature, privately undertaken by the companies concerned. There has been no consultation among the Governments of Japan, Turkey and Italy concerning the above arrangement.

4. The 51.6 billion yen loan which the Government of Japan has pledged to provide for the second section of the Project is official development aid; it is not an associated finance which is subject to OECD regulations. Incidentally, the grant element of the yen loan that the Government intends to provide is 36.7% (interest rate 5.0%, with a reimbursement period of 25 years including a 7 year period of grace), whereas, according to our information, the Government of the United Kingdom seems to have proposed the provision of a fund with a much lower grant element. It is evident that the said yen loan is far removed from commercial terms both in respect of modality of fund provision and grant element.

.../...

5. The Government of Japan is aware of the fact that Prime Minister Thatcher has a strong personal concern in this matter, but it believes that what matters is to construct a bridge as good as the first Bosphorus bridge with the full co-operation of all the companies concerned.

6. The UK side seems to be of the view that there may have been a possibility of separating the bridge and connecting roads so as to place only the former to international tender, and that the Japanese Government might have put pressure on the Turkish side by taking the position that it would not grant a yen loan unless the bridge and the roads were combined. But this view is contrary to the facts; there was no possibility to tender for the bridge alone, separate from the connecting roads. Furthermore, the Turkish side was demanding that tenders should cover the whole Project, encompassing Section I to Section IV. The Japanese Government has in no way applied pressure to the Turkish side by implying that it will not provide a yen loan unless the contract is made for both the bridge and the roads leading to it.

TRADE NAM - Tariff

29 MAY 1985

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From the Private Secretary

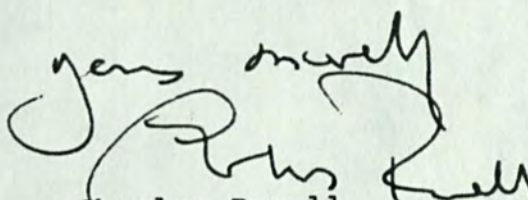
10 May 1985

Dear Colin,

Second Bosphorus Bridge Project

Thank you for your letter of 9 May, enclosing a message from Mr. Nakasone. The Prime Minister would like to send a robust, well-argued reply with plenty of facts to counter his early next week. I should be grateful if work could be put in hand on this.

I am sending copies of this letter to John Mogg (Department of Trade & Industry) and Paul Haston (Minister of State's Office, Department of Trade and Industry).

Yours sincerely

Charles Powell

Colin Budd Esq
Foreign and Commonwealth Office.

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Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

9 May 1985

A far from helpful
reply. I suspect some
of the information it is
specious. I will ask for
a factual rebuttal of some of
the arguments to be
waxed up.

Dear Charles,

C.D.P.
9/5

Second Bosphorus Bridge Project

I enclose a message from Nakasone to the Prime Minister which the Japanese Ambassador delivered to Richard Luce this evening.

Mr Luce thanked the Ambassador for the message and undertook to ensure that it reached the Prime Minister without delay. He made three further points:

- (a) The British Government were concerned that the provision of aid to the Turkish Government had been closely linked to the award of the contract to the Japanese consortium.
- (b) As the Prime Minister had pointed out to Nakasone, there was concern in Britain that Japanese companies benefitted from the profits they made from their sales in Britain while British companies had only limited access to Japanese markets. Such unfair practice caused considerable resentment.
- (c) Cleveland Bridge Limited had an excellent reputation and still hoped for some participation in the Project. The Ambassador undertook to convey this point to his Government.

The Ambassador underlined the following points in Nakasone's explanatory note:

- (a) It was not true that the British bid, either for the whole project or for the bridge section on its own, had been lowest.
- (b) Nor was it true that the Japanese companies had asked the Turks to put the bridge and associated contracts into a single package.

/(c)

Charles Powell Esq
10 Downing Street



- (c) No mixed credit had been involved in the Japanese financing package. The Japanese Government had openly and fairly provided Turkey with a soft loan for development purposes. That was a quite different matter.

Replying to Mr Luce's points, the Ambassador claimed that his Government were now doing their best to liberalise Japanese markets. Mr Luce replied that the British Government would be looking for early practical results.

In your letter of 8 May you said that before sending a further message from the Prime Minister to Nakasone it would be better to wait for a progress report on the Cleveland-Japanese consortium discussions. The latter are still going on. We will keep you posted.

I am sending copies of this letter and enclosure to John Mogg (Department of Trade and Industry) and Paul Haston (Minister of State's Office, DTI).

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

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10 DOWNING STREET

From the Private Secretary

8 May 1985

BOSPHORUS BRIDGE

The Minister for Trade minuted the Prime Minister this evening proposing that she send a message to Mr. Ozal to support the efforts of Cleveland Bridge to win back some part of the Bosphorus Bridge project. The Prime Minister has signed the message in slightly amended form. I enclose it with this letter and should be grateful if it could be telegraphed overnight to Ankara for delivery.

The Prime Minister thinks that the message should also be copied to our Embassy in Tokyo as background to the instructions which I understand are being sent to them to pursue the matter with the Japanese Government. She also thinks that she should in the fairly near future send a message to Mr. Nakasone to follow up their conversation in Bonn. But it would be better to see first how the discussions between Cleveland Bridge and the successful Japanese consortium develop over the next day or so.

I am sending copies of this letter and enclosure to John Mogg (Department of Trade and Industry) and Paul Haston (Minister of State's Office, DTI).

(CHARLES POWELL)

C R Budd Esq
Foreign and Commonwealth Office

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