

Subject cc Master
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10 DOWNING STREET

THE PRIME MINISTER

17 May 1985

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T92/85

Your Prime Minister,

Thank you for the explanatory note on the Second Bosphorus Bridge project which Mr Yamazaki delivered last week. As you know, I have taken a close interest in this project and I am grateful that you have done likewise.

As I said when we met in Bonn, we have a great respect for Japan's international economic performance. At the same time we need to solve the problems which Japan's trade surplus causes to the world trading system. Japan's trade imbalance with her major trading partners causes great strains and threatens the progress we have made towards a new round of trade negotiations. For this reason we welcome your publicly-stated determination to rectify Japan's trade imbalance. But I have to say that I find the circumstances surrounding the Bosphorus project, and in particular the use of exceptional credit terms and aid to secure the contract for Japan, to be seriously inconsistent with this determination.

The Second Bosphorus Bridge project has been the subject of complicated and detailed negotiations between the Governments and the commercial firms involved. It is not surprising that we should differ in the interpretation of

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some of the surrounding circumstances. But there are a number of points in your note on which I should comment.

As regards the connecting roads, you pointed out that 37 kilometres of immediate approach roads were included with the bridge in the original concept. I of course accept your assurance that the linking of the motorways in Sections 1, 3 and 4 to the bridge project itself was a decision taken solely by the Turkish Government. But the decision to provide such a high level of concessional finance on other sections of the contract was one for your government and the Japanese-led consortium. I continue to believe that the British technology in bridge-building available through the Cleveland Bridge bid is second to none.

You have queried the grant element embodied in our aid. In fact our aid offer was in line with the agreed guidelines, at 25 per cent of the UK officially-supported content, subsequently increased to the same level as your offer. It was made to match the offers previously made by other competitors, in accordance with OECD rules, and contrary to the inaccurate reports in the Turkish press.

I note your comments on the circumstances which led to the yen loan of 51.6 billion yen. Nevertheless its nature, purpose and relationship to other non-aid finance would seem to place it in the category of an associated finance package as defined by OECD. I was interested, too, to learn from Cleveland Bridge that the interest rates on the balancing commercial yen loans were higher than normal consensus rates. I believe these are issues which require further clarification. This might best be done under the OECD study on transparency and improved discipline.

Your note states the Japanese Government's view 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. I entirely agree. Cleveland Bridge have the skill and experience to do it. It would be in the

interest of the successful consortium and of the Turkish Government that Cleveland Bridge should be associated with this project. Prime Minister Ozal has assured me that he would be content if this were to happen and believes that IHI are also interested in this possibility. You may wish to pursue the matter when you see Prime Minister Ozal.

With best wishes

Yours sincerely

Margaret Thatcher

His Excellency Mr Yasuhiro Nakasone

EPR



Foreign and Commonwealth Office

London SW1A 2AH

16 May 1985

*Dear Charles,*Second Bosphorus Bridge Project

/ I enclose the draft of a message to Mr Nakasone for
/ which you asked in your letter of 10 May. I also enclose
a factual commentary on the operative parts of the
Japanese note, prepared principally by the DTI.

We see our first priority in this matter as to secure a share of the business for Cleveland Bridge. But we must also take account of the important and more general question of Japan's overall trading performance. The problems are thrown into sharp relief by the specific example of the Bosphorus Bridge Project. The Prime Minister has already spoken very firmly on this at the Bonn Summit. We need not be inhibited from pressing this general point home to the Japanese by the fear that it might be counter-productive: the experience of the US strongly indicates that the Japanese are most likely to respond to sustained but carefully calculated pressure.

In order to secure both our immediate and long-term objectives we believe that the tone of the message should be firm but not combative. In addition it should avoid pursuing detailed criticisms of actions by Japanese firms or the Japanese Government which we cannot substantiate. The DTI's commentary makes clear that we have no evidence to undermine the Japanese account of the facts both on price and on the scope of the project as defined by the Turks. Japanese actions over the yen loan are more open to question. This reflects the practice of the Japanese, and indeed others, in sailing close to the wind as regards OECD rules. Undoubtedly the funding was clearly and expressly aimed at winning the project. The draft message brings out our disagreement with the Japanese interpretation on this count. It indicates that we are considering pursuing the matter in the OECD. The Japanese will not welcome exposure there.

/I

C D Powell Esq
No 10 Downing Street

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- 2 -

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

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

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AMA

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:
Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:
Prime Minister of Japan

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Thank you for the explanatory note on the Second Bosphorus Bridge project which Mr Yamazaki delivered last week. As you know, I have taken a close interest in this project and I am grateful that you have ~~been able to do~~ *done likewise* the same.

As I said when we met in Bonn, we have a great respect for Japan's international economic performance ~~and for the dedication which lies behind it~~. At the same time we need to solve the problems which Japan's trade surplus causes to the world trading system. Japan's trade imbalance with her major trading partners causes great strains and ~~can only threaten~~ the progress we have made towards a new round of trade negotiations. For this reason we welcome your publicly-stated determination to rectify Japan's trade imbalance. But I have to say that I find the circumstances surrounding the Bosphorus project, and in particular the use of exceptional credit terms and aid to secure the contract for Japan, to be seriously inconsistent with this determination.

The Second Bosphorus Bridge project has been the

Enclosures—flag(s).....

subject of complicated and detailed negotiations between the Governments and the commercial firms involved. It is not surprising that we should differ in the interpretation of some of the surrounding circumstances. But there are a number of points in your note on which I should comment.

As regards the connecting roads, you pointed out that 37 kilometres of immediate approach roads were included with the bridge in the original concept. I ^{of course} accept absolutely your assurance that the linking of the motorways in Sections 1,3 and 4 to the bridge project itself was a decision taken solely by the Turkish Government. But the decision to provide such a high level of concessional finance on other sections of the contract was one for your government and the Japanese-led consortium. I continue to believe that the British technology in bridge-building available through the Cleveland Bridge bid is second to none.

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the balancing commercial yen loans were higher than normal consensus rates. I believe these are issues which require further clarification. This might best be done under the OECD study on transparency and improved discipline.

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CD.



Export Policy
file

PRIME MINISTER'S VISIT TO SE ASIA: FOLLOW-UP ON PROJECTS

POINTS TO MAKE

Defence

1. The companies most involved have all followed up intensively the matters discussed .
2. Senior Representatives of the Defence Sales Organisation of the Ministry of Defence visited SE Asia immediately afterwards .
3. Malaysian Deputy Minister of Defence visited this country in the past week to have discussions following up the matters discussed during my visit.
4. A transfer of technology agreement between British Aerospace and Indonesia on the Rapier missile programme will be signed next week. Hope that this will form the basis of future orders to add to those already placed by Indonesia.
5. Negotiations on several projects in Indonesia and Malaysia are progressing satisfactorily and there is every expectation that these will lead to substantial orders.

Malaysia - Water Supply Project

Discussions the PM had with the Malaysian Government have been vigorously followed up by the company - Biwater Shellabear - who are very hopeful that they will lead in the next few months to a very large export order for the UK.



CAPITAL GOODS EXPORTS WITH SPECIAL GOVERNMENT SUPPORT
(ATP, BILATERAL AND SPECIAL ECGD ETC)

GEC	-	£1411m
NEI	-	£528m
Davy McKee	-	£751m
Babcock	-	£461m
Grand Total		<u>£3151m</u>

<u>GEC</u>	£ m.
Castle Peak, Hong Kong	760
Victoria Dam Sri Lanka	113
Dura } South Africa	120
Majuba }	300
Bhamburda Park India	130
Bangladesh	10

plus in construction

Cairo Sewerage System Egypt	60
Colombo Airport	18

1511

21



ECGD

EXPORTS INSURED

1979 - 1984/85
(financial years)

£105 billion

This includes provisional figures of £16,847 billion for 1984/85 financial year.

It is not Departmental policy to issue figures of ECGD support for individual companies.



DAVY CORPORATION

Year to 31 March

Exports from UK

	<u>£m</u>
1979	233
1980	229
1981	190
1982	185
1983	183
1984	201
Total UK exports 79-84 inclusive	<hr/> 1,221 <hr/>

NEI OVERSEAS EXPORTS

Year to 31 March

	<u>£m</u>
1979	112
1980	127
1981	145
1982	160
1983	160
1984	179
	<hr/> 883 <hr/>



GEC OVERSEAS EXPORTS

<u>Year to 31 March</u>	<u>£m</u>
1979	745
1980	803
1981	965
1982	1,097
1983	1,138
1984	1,209
	<u>5,957</u>

BABCOCK OVERSEAS EXPORTS

<u>Year to 31 March</u>	<u>£m</u>
1979	151
1980	146
1981	136
1982	141
1983	152
1984	161
	<u>897</u>



BOTB NET EXPENDITURE TO EXPORTERS

1979-80	21.2m	
1980-81	18.6m	
1981-82	19.6m	
1982-83	22.6m	
1983-84	22.2m	
1984-85	28.3m*	Gross.
1985-86	27.7	38.8
1986-87	*provisional 27.4	40.5
1987-88	27.1	40.7

ATP payments / Offers According to Lead Contractors

£s. M.

Company	Export Value	ATP Input	% of ATP total
GEC	192.989	50.199	14%
Davy International	251.500	48.448	14%
NEI	340.626	45.918	13%
Balfour Beatty	137.402	35.720	10%
British Shipbuilders	58.54	18.685	5%
BMC	80.067	15.067	4%
Babcock	50.035	12.600	4%
Hawker Siddeley	45.800	12.585	4%
STC	34.673 (+)	12.111	3%
Rolls Royce	28.000	10.020	3%
Wimpey	35.000	10.000	3%
British Aerospace	40.432	9.318	3%
BRE - Metro	51.798	9.809	3%
JBE	32.269	8.302	2%
Seltrust Engineering	14.550	7.181	2%
	<hr/>	<hr/>	
	1393.681	305.963	87%
34 other companies	212.279	44.113	13%
	<hr/>	<hr/>	
	1605.960	350.076	100%

51%

SECOND BOSPHORUS BRIDGE

COMMENTARY ON JAPANESE EXPLANATORY NOTE

Although we do not know the full details of the winning financial package, we have examined closely such information as we have available. While probably within the rules, the package does have some unusual features such as higher than normal interest rates on the Japanese commercial loans complementing their soft loan. According to our calculations, these higher rates would yield an additional \$14m and although theoretically this could have been used to subsidise price it falls far short of the \$40m price differential on Section 2.

1. Price

We agree that the Japanese bid was cheaper, both for the total project and for Section 2, including the bridge. Our point was that Cleveland Bridge's price for the bridge alone was slightly lower, \$111m against \$114m by IHI. But it is correct that the Turks were not entertaining bids for the bridge alone.

2. Scope of Project

There has been suspicion that, encouraged by hints from the Japanese firms, (not the Government) that soft money would be available, the Turks decided to add to the project an extra 160km of motorway. The Japanese tactics seemed aimed at sweeping up the bridge in an enlarged project, for which they were prepared to provide more financing than the UK. The Japanese note denies this. There is no way of proving the charge.

3. The Japanese Financial Package

The Japanese soft money is confined to Section 2 of the project leaving them open to the charge that this was only available on condition that a Japanese-led consortium were awarded Sections 1,3 and 4 of the project. If this were the case it could be criticised as being contrary to OECD agreements, although there were no other official Japanese export credits involved. Their defence is that
/they

they were asked by the Turks for a Yen loan on the whole project, but were unable to produce sufficient finance. Consequently they restricted the soft loan to Section 2, and they deny that this was conditional upon a Japanese-led consortium winning other parts of the contract. If in fact there was no such conditionality, as the Japanese claim, then this OECF (the Japanese Overseas Economic Cooperation Fund) loan did not contravene any OECD agreements.

The Japanese aid loan comes from their large bilateral aid programme. However, offers of partially concessional aid, such as the OECF loan on Bosphorus, can have the same effect as mixed credits. Within OECD we have argued that the discipline applying to mixed credits should also apply to concessional tied aid with a subsidy of less than 50%. Hitherto the Japanese resisted such a move, but they recently appear to have accepted that this will have to be the case. The recent OECD Ministerial agreement in April provided for prior notification within the consensus of all offers of tied aid including mixed credits with a grant element of less than 50%. The Japanese offer was made prior to this agreement. The Japanese classify the OECF loan on Bosphorus as "LDC-untied". This means that the loan is available to Japanese or LDC firms. As the Turkish firm in the winning consortium does not have bridge construction expertise, the loan is effectively tied to the Japanese firms in that consortium. We are seeking a new definition of "tied aid" credit within the consensus which would embrace this sort of transaction.

4. The UK Financial Package

The grant element of our mixed credit was within the rules (25% initially) and at the end of the day was the same as the equivalent for the Japanese loan. The Japanese volume of aid was far greater - about four times our amount. The Turks could not expect that part of the Japanese Yen loan would have remained available for the approach roads and motorways, had the bridge element been isolated and awarded to Cleveland Bridge. Therefore there was no chance of the Turks adopting this course.

Department of Trade and Industry

15 May 1985

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Trade: Non-Tariff Barriers Pt 3



18 MAY 1985

Department of Trade and Industry
18 May 1985



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Secretary of State for Trade and Industry

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

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

16 May 1985

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

QD 145

Dear Charles,

BOSPHORUS BRIDGE

You wrote to Colin Budd on 10 May to ask for a reply to Mr Nakasone's message of 10 May.

... Officials here and in FCO have drawn up the attached agreed draft. My Secretary of State is content with this draft. I understand you specifically asked for his clearance.

Yours sincerely,
Maureen Dodsworth.

MAUREEN DODSWORTH
Private Secretary

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10 DOWNING STREET

From the Private Secretary

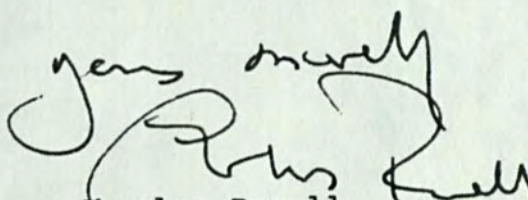
10 May 1985

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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