

SUBJECT.
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CC 137.
PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T.103A/85

(UNOFFICIAL TRANSLATION)

1 June 1985

Dear Prime Minister,

I have received your message of 17 May through Ambassador Giffard in which you offered your comments on the circumstances surrounding the Second Bosphorus Bridge Project, following the explanatory Note of 10 May delivered by Ambassador Yamazaki.

In your message you mentioned the use of exceptional credit terms to secure the contract for Japan. With respect to your comments, I would like to bring to your attention the following points:

The Yen loan you mentioned is ODA extended in response to the strong request of the Turkish Government and solely for the purpose of promoting economic and social development in Turkey and the stabilization of the welfare of her people. You might recall that from 1979 to 1982, the member countries of OECD provided special assistance to Turkey as they considered it important for the maintenance of world peace and stability that Turkey, as a country located at the juncture of three continents, should exist as a stabilizing force in the Middle East. Japan also took a very active part in this assistance, extending in total a loan of 46.5 billion Yen and export credits amounting to 33.068 billion Yen during that period.

The Turkish Government continued to seek economic cooperation from Japan after that, and on 29 January this year, it made requests for Yen loans on four projects

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including the Second Bosphorus Bridge Project.

In response to these requests, Japan chose to extend economic cooperation for the Second Bosphorus Bridge Project and to extend to the Turkish Government ODA for this purpose with a view to making her financial burden relatively small. This was decided in the light of the spirit of Japan's active participation in the OECD Special Assistance for Turkey and its policy to strengthen assistance to countries in regions with important bearing on world peace and stability. Account was also taken of the fact that Turkey had given utmost priority to the Second Bosphorus Bridge Project among the projects requested and that this project was judged significant for the economic and social development and the stabilization of the welfare of the Turkish people.

The terms of the Yen loan are not exceptionally concessional, with an interest rate of 5% per annum and a repayment period of 25 years including a grace period of 7 years, terms which were decided in accordance with Japan's policy for extending Yen loans, taking into consideration the terms of Yen loans to other countries having national income levels similar to Turkey.

The Project drew the interest of nine international groups and after two of these, one including a Japanese company, were disqualified at early stages in the tender, seven remained in competition. Four out of these seven tendered for the entire Project, including the Bridge, among which three included Japanese companies. One of these three groups consisted of Japanese, Italian and Turkish companies, another of Japanese, West German, Italian and Turkish companies, and the last one of

/ Japanese ...

Japanese, West German, Italian, Austrian and Turkish companies.

In inviting tenders, the Turkish Government divided the Project into four sections from the beginning and the Bridge itself was presented as part of Section 2 which included the 37 kilometres of immediate approach roads. From our point of view, if the Bridge alone had been originally presented as a single section, we would have decided to extend the Yen loan to the Bridge alone. In any case, it was solely the decision of the Turkish Government to divide the Project into 4 sections and to include the connecting roads in Section 2. The Japanese Government took no part whatsoever in that decision.

As for the result of the bidding, the group consisting of Japanese, Italian and Turkish companies offered the lowest bid for the entire Project, made up of four sections, as well as for Section 2 alone. Incidentally, I am informed that Japanese companies were included in two of the three groups which were unsuccessful in this tender, and that their offers were less favourable than that of the Cleveland Bridge which offered the second lowest bid.

We understand that the Turkish side finally decided to award the construction contract for the Project including Section 2 to the group consisting of Japanese, Italian and Turkish companies because they had made the lowest bid. On this point the Turkish Prime Minister Mr. Ozal, who recently visited my country, said in a press conference held in Japan that the Japanese group was successful because it had made the lowest bid with a large difference in price compared with the second-lowest bidder,

/ and ...

and that its success had nothing to do with the Japanese offer of credit.

You seem to consider that the Yen loan was a case of associated financing as defined by OECD and extended for the purpose of promoting Japan's exports, but it is clear from the foregoing explanation that the Yen loan was development assistance and not credit offered for export promotion.

In this connection, you also refer to the interest rates of commercial Yen loans, but these are not officially supported loans. The Japanese Government is not at all involved in matters concerning commercial loans and neither does it consider that it will be possible to intervene in such matters in the future. I also understand that the interest rates of commercial loans are not under the regulation of the OECD Guidelines. I wish to note that we are prepared to discuss associated financing in general in OECD as you have suggested.

That Cleveland Bridge has a high standard of technology is evident in the fact that it undertook the construction of the First Bosphorus Bridge. I believe, however, that whether or not it will participate in the project is a matter to be settled among the private companies concerned.

My understanding of matters concerning the Bosphorus Bridge Project is as stated above. To be frank, my views differ from what you have expressed in your comments, but I hope you will correctly understand the nature of the issue on the basis of my explanation.

If we look back over developments in Japan-U.K.

/ relations ...

relations following our meeting in London last June when we agreed further to promote our bilateral relationship, I think we can readily observe a very welcome trend of increasing dialogue and exchange at all levels, of which the first meeting of the 2000 Group held in February is a prominent example.

Although our economic relations are becoming increasingly close, the trade imbalance problem remains. I am fully aware of Japan's important role and responsibility in the world economy, and it is with this in mind that I have been seeking the further opening of our market in telecommunications and tobacco and many other sectors. Following a recent decision on external economic measures, I am at the moment drawing up the outline of an action programme to further improve access to our markets. I strongly hope that through the combination of such efforts on our side and your efforts to increase exports to Japan, our trade relations will develop towards an expanded equilibrium. At the same time our bilateral relations have seen steady progress in the area of industrial cooperation, and I am convinced that this favourable trend will contribute to the further promotion of our economic relations.

I myself wish to see a further advancement in the friendly and constructive Japan-U.K. relationship that we have been building together over the past years and sincerely hope that the current issue concerning the Second Bosphorus Bridge Project, by being given publicity based on misunderstandings, will not affect our bilateral relationship as a whole.

I am determined to continue my efforts in close cooperation with you to further strengthen the relations between our two countries.

Yours sincerely,

YASUHIRO NAKASONE
Prime Minister of Japan



10 DOWNING STREET

From the Private Secretary

5 June 1985

SECOND BOSPHORUS BRIDGE

Thank you for your letter of 4 June enclosing a further message from the Japanese Prime Minister about the Second Bosphorus Bridge.

BF | The Prime Minister would be interested to see a detailed analysis of the points made in Mr. Nakasone's message but her inclination is not to continue the correspondence. She would not, however, wish to give the Japanese the impression that we are letting the wider issue drop. She would certainly wish us to pursue discussion of associated financing in the OECD.

I am copying this letter to John Mogg (Department of Trade and Industry).

(Charles Powell)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

CST



Foreign and Commonwealth Office

London SW1A 2AH

4 June, 1985

MF

Dear Charles,

*Prime Minister
An olive branch, but
without yielding an
inch. There seems no
point in a further*

Second Bosphorus Bridge

I enclose a further message in unofficial English translation from the Japanese Prime Minister delivered by the Japanese Ambassador to Sir William Harding this afternoon. The original text, which is (unusually) in Japanese, will be delivered later this week.

*reply, but
we
should
pursue
discussion
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in the
OECD.
CDP
4/6*

The Ambassador had not received instructions to make any specific points in handing over the letter. However he drew attention to the paragraph in which Nakasone points out that the terms of the yen loan were not exceptionally concessional; the Ambassador said that the interest rate for yen loans to Indonesia for example, of which he happens to be aware, was 3½%. He also emphasised the Japanese Government's readiness to discuss associated financing in OECD, though in general terms, given that their belief is that the yen loan was not a case of associated financing.

Sir William Harding said that he would not comment on the substance of Nakasone's letter, which would require study. However he expressed appreciation for the frankness with which Nakasone had expressed himself, and said that it reflected the relationship of confidence between the two Prime Ministers. With reference to the last page of the letter which describes the wider issues of the economic relationship, Sir W Harding said that it was very important that the further measures promised to improve access to the Japanese market should be effective.

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

*Yours ever,
Colin Budd*

C D Powell Esq
10 Downing Street

(C R Budd)
Private Secretary



EMBASSY OF JAPAN
UNITED KINGDOM

London, 3rd June 1985

Dear Prime Minister,

I am asked by Prime Minister Nakasone to transmit to you the unofficial translation of his letter to you, dated 1st June 1985, concerning the Second Bosphorus Bridge Project.

I have pleasure in enclosing herewith this text.

Yours sincerely,

Toshio Yamazaki
Ambassador

The Rt.Hon. Margaret Thatcher, MP,
Prime Minister and First Lord of the Treasury,
London.