



Foreign and Commonwealth Office

London SW1A 2AH

15 February 1988

Dear Charles

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Rose Austin

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Turkey: Aid Support for Third Bosphorus Bridge

Recent press reports have stated that Trafalgar House (Cleveland Bridge Engineering) were placed second on price to a Turkish contractor when bids were opened for the Third Bosphorus Bridge project, and that they had secured British aid of \$61 million in support of their bid.

The idea for a third bridge across the Bosphorus was put to the Turks by Trafalgar House, who also proposed the innovative build, own, operate and transfer (BOOT) mechanism to finance and operate the bridge. Under this arrangement a concession company is formed to build the bridge at no cost to the Turkish Government and to operate the bridge, earning revenue from tolls for a specified period (12 years) before the bridge is transferred into public ownership. This is a very similar arrangement to that agreed for Trafalgar House to build a bridge across the Thames at Dartford.

Trafalgar House were discussing this project with the Istanbul municipality throughout last year. ODA and DTI officials have been closely involved throughout in the preparation of the studies necessary to satisfy the Turkish authorities, the banks which will be putting up the commercial finance, ECGD which will be providing project finance cover, and the ODA, that the project is viable. Trafalgar House had hoped to secure a negotiated contract with the Turks on the basis of ATP support. However, the Turkish central authorities insisted upon international competitive tendering, and bids were submitted on 8 February.

Mr Patten approved ATP support for the project in January, and the post has informally told the Turkish authorities of HMG's decision to offer aid. ATP (£35 million) will cover 30.1 per cent of the UK export value of the contract. We are obliged under OECD rules to give 20 working days prior notification to others before making such an aid offer. This period expires on 29 February. Notification was not made earlier to avoid alerting our competitors. We understand that so far no other aid offers have been made.

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We understand from the Embassy in Ankara that the prices widely quoted in the press are accurate - a local contractor bid \$171.5 million, Trafalgar House were second with £248.8 million, followed by the Italians at £258 million and the Dutch at \$441 million. A full evaluation of the bids is in hand and will take some time. If they are to win, Trafalgar House can expect to face some tough negotiations to bridge the gap between their price and the lowest bidder, despite the availability of aid, which would be used to provide public sector equity in, or loans to the concession company. The detailed financial arrangements are still to be negotiated.

The contract for the Second Bosphorus Bridge went to Trafalgar House's Japanese competitors following a Japanese aid loan offer of \$200 million. For the Third Bridge similar strong Japanese competition was expected. In the event the Japanese did not bid, but have instead thrown in their lot with Trafalgar House: an agreement was reached and signed in early February but was too late to be reflected in the bid that was submitted by Trafalgar House. Subject to the Japanese providing part of the finance, discussions on a joint Anglo-Japanese bid (which would, according to Trafalgar House, have only minimal effect on the UK content of the project) will be held with the Turkish authorities.

*Yours ever*

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