

SUBJECT & MASTER

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10 DOWNING STREET  
LONDON SW1A 2AA

9 April 1988

From the Private Secretary

Dear Syr.

PRIME MINISTER'S VISIT TO TURKEY:  
MEETING WITH TURKISH PRIME MINISTER

The Prime Minister had a meeting lasting some two hours with the Turkish Prime Minister on the first morning of her official visit to Turkey (7 April). Mr. Ozal was accompanied by the Turkish Ambassador in London and by a member of his private office Mr. Volkan Bozkurt. H.M. Ambassador in Ankara was also present.

Hijacking of Kuwaiti aircraft

The meeting opened with a brief discussion of the stage reached in the hijacking of the Kuwaiti aircraft and the position of the British passengers. Mr. Ozal offered to use his contacts with the Iranians to try to find out more about the situation on the ground in Mashhad. He later reported that he had been approached by the Kuwaiti Government with a request that he urge the Iranians not to allow the aircraft to take off and complied.

Iran/Iraq

This led on to a discussion of the Iran/Iraq war. Mr. Ozal gave an account of his impressions of Iran. There seemed to be fewer pictures of Khomeini on display than two years ago and the women were less heavily veiled. More generally, he was impressed by the amount of political activity in Iran. While Iraq was a dictatorship, Iran had a functioning Parliament, with many conflicting groups and shifting alliances. Khomeini's role was essentially that of refereeing disputes between the groups. The absence of a strong government party meant that there was bound to be trouble once Khomeini left the scene. Mr. Ozal added that he had raised the case of Mr. Cooper during his visit to Iran.

Turning to the situation in the Iran/Iraq war, Mr. Ozal said that he had engineered a truce in the war of the cities for the duration of his own visit to Baghdad. Unfortunately, it had not lasted. His feeling was that, if a wider truce

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could be agreed for a period of two or three months, it would in practice mean an end to the war. Once the fighting stopped, there would be strong public resistance in both countries to a resumption. However, the chances of such a truce appeared remote in the wake of the resumption of the war of the cities. Mr. Ozal added that there was no doubt that the Iraqis had used chemical weapons on the north-east front. They may have done so in error, believing the area in question to have been over-run by the Iranians. The only casualties had in fact been Kurds. He believed that the Iraqis were obtaining materials for their chemical weapons from Germany. Turkey was treating Iraqi requests for over-flights with suspicion and had required at least one to land at Istanbul.

The Prime Minister shared Mr. Ozal's gloomy prognosis for any early end to the war. There was no option but to work through the United Nations and to try to enforce Security Council Resolution 598. She agreed that the war of the cities had been a considerable set-back.

#### Afghanistan

Mr. Ozal predicted a period of chaos and fighting following Soviet withdrawal from Afghanistan. He seemed concerned that the Soviet Union would somehow try its trade agreement to support an arms embargo against Iran for a free hand to continue supplying the Afghan regime with weapons. The Prime Minister said that she was certain that the Russians had made up their minds to leave. We must do nothing to hinder that. On the other hand, if they insisted on continuing to supply the Afghan regime with weapons, there must be symmetry with the Americans and others free to go on supplying the resistance. She agreed that Soviet withdrawal was likely to be followed by further fighting. But we did not expect the present regime in Kabul to survive for long.

#### Turkish economy

Mr. Ozal gave a lengthy and rosy account of Turkey's economic situation and prospects. The country was going through a major transformation. In five years it had progressed from being a closed economy to becoming an open market economy, with no import quotas and greatly reduced tariffs. While the rate of population increase was still too high, it was declining and would probably be down to one per cent by the end of the century. Some 60 per cent of the population was now in the cities with 40 per cent in the rural areas. By the end of the century, the proportions would be of the order 80/85 per cent to 15/20 per cent. At the same time, Turkey was changing from being an agriculturally-based to an industrially-based economy. In 1979 exports had accounted to only \$US 2 billion of which sixty per cent had been agricultural products. In 1987, the figure had been \$US 10 billion of which eighty per cent had been industrial goods. He expected a further twenty-five per cent increase in exports in 1988. Despite high interest payments due this year, booming exports and tourist earnings meant that Turkey would be able to meet its commitments. He expected the balance of

payments to be more or less neutral in 1988. Overall growth had been very strong, running at 8, 8.1 and 7.4 per cent over the past three years. His aim was to lower the growth rate somewhat in the current year, mainly by cutting public investment. His target was six per cent growth for 1988. The biggest problem was inflation. There were two causes: the opening up of the Turkish economy to the outside world, which led domestic prices to rise towards the external price levels; and the increase in the money supply. The government were taking drastic steps to combat inflation. He believed that prices would continue to rise rapidly for a further two months but would then slow down and level off. Overall, he was confident that Turkey would reach stability at a lower level of inflation and lower unemployment. Indeed, unemployment was starting to decline for the first time ever.

The Prime Minister commented that the performance of the Turkish economy had been impressive but there were clearly short term risks in the high level of inflation. If this were allowed to continue, it would be very damaging. Mr. Ozal said that there was bound to be a cost in opening up the Turkish economy to the outside world.

#### Major projects

Mr. Ozal said that Turkey's main need continued to be to strengthen the basic infrastructure of its economy. The Prime Minister said that this should give opportunities to British firms. We had been disappointed not to win the contract for the second Bosphorus bridge. British firms were particularly well qualified in this area. We hoped they would win the contract for the third Bridge on the basis of merit. Mr. Ozal said that British firms had in fact received substantial orders for steel and cable for the second Bosphorus bridge. He also claimed (wrongly I believe) that the design of the second Bridge had been British. In the case of the third Bosphorus bridge, a Turkish group had submitted the lowest bid, based on a design by a British consultant (Dr. Brown) for a bridge which was half the weight and thickness of that proposed in the competing British bid. He understood that the Turkish group were also approaching British companies to supply the steel and cables. He encouraged the Prime Minister to discuss this further with the Mayor of Istanbul.

Mr. Ozal continued that he understood that British firms were well placed to win the contract for the Istanbul expressway. The Prime Minister said that we were indeed hopeful about this and were also interested in the Omerli III water supply contract. British companies were also involved in bids for various items of defence equipment. We had been disappointed that Warrior had not been selected by the Turkish Armed Forces, since it was quite clearly the best of the available vehicles. Mr. Ozal interrupted to say that he understood that a British company was very likely to win the contract to supply military radios on which a decision was due towards the end of July. This would be worth \$US 500 million over ten years. He also referred to projects for a mobile radar in which Marconi were interested; the Turkish

requirement for over 300 helicopters which might be of interest to Westland if they were prepared to make some of the parts in Turkey; the prospects for Rapier; and the Zeus electronic warfare suite for Turkey's F-16 aircraft, although there was also strong American competition here. The Prime Minister added to the list Pilkington's interest in supplying sights for the Turkish Army's new APCs. In the light of Mr. Ozal's comments, she would be resolutely optimistic about the prospects of our companies winning some important defence contracts, and correspondingly disappointed if they did not.

#### European Community

Mr. Ozal raised Turkey's application for membership of the European Community. There were signs that the freeze in the Community's relations with Turkey under Association Agreement was ending and he was grateful for Britain's help over this. He hoped that the amounts outstanding under the Fourth Financial Protocol could be released. It was not so much the sum of money which was important - its real value was of course much less than at the time it had been agreed in 1981 - but it was of symbolic importance. Looking further ahead, he was convinced that, whatever the Commission reported on Turkey's application, Turkey would become a member of the European Community one day. He would not want to forecast a date. His main immediate concern was that Turkey should prepare itself better for membership than other recent applicants had done.

The Prime Minister recalled that we had done everything possible during the United Kingdom's Presidency to revive the Association Agreement. We wanted to see the Fourth Financial Protocol unblocked. The sums of money involved were far from insignificant. The Community was now busy with the task of absorbing Spain and Portugal, which would take many years. Some people argued that Turkey's economy would not be able to take the strain of membership of the Community: the disparity between Turkey's standard of living and the average in the Community was too great.

Mr. Ozal said that Turkey's standard of living was not as low as the figures implied. Turkey's per capita income was normally given as \$US 1500, but on the basis of purchasing power parity the right figure was \$4000. He would like to see EC countries invest more in Turkey to help prepare the Turkish economy for eventual membership. They might offer special assistance to companies prepared to invest. After all, substantial aid was being provided to Greece and Portugal and Spain. Once the Commission had delivered its opinion on the Turkish application, the Community should start negotiations with Turkey straight away. That in itself would strengthen confidence in the Turkish economy and encourage investment. He recognised that negotiations would take many years. The important point was that Turkey should not be rebuffed.

The Prime Minister said that the critical point was for the Commission to finalise its opinion. Nothing could happen until that had been received and studied by the Member States.

She could not give any commitments, only say that the United Kingdom would approach the issue from the perspective of its historic friendship with Turkey. Meantime, Turkey and the European Community should be seen to be working together and the Association Agreement was the best instrument for this. We would do our level best to invigorate it.

The Prime Minister continued that Mr. Ozal's remarks raised several other important issues. It was only realistic to recognise that Turkey's membership would impose a massive financial burden on the Community which would necessitate a complete restructuring of its financing. This would mean in turn that countries which were at present net beneficiaries would become net contributors. This would not be at all welcome to them. There were other practical problems such as free movement of workers. Mr. Ozal interjected that Turkey was ready to accept limitations on the movement of workers in the context of an eventual agreement. He had made this plain to the Germans. The Prime Minister continued that she thought that Mr. Ozal was right to focus on attracting investment from foreign firms. This made it all the more important to conclude an Investment Protection and Promotion Agreement with the United Kingdom. This meant that Turkey must accept a safeguard clause, otherwise there would be no agreement. Mr. Ozal seemed surprised to hear there were difficulties and said that he would look into the problem. Turkey had completed such agreements with many countries.

The Prime Minister concluded that she thought Mr. Ozal was handling Turkey's application in the right way. Britain and Turkey were good friends and we would approach all discussions in that light.

### Cyprus

The Prime Minister said that she had seen President Vassiliou in London. He seemed more willing to negotiate than his predecessor had been. He obviously attached great importance to the improvement in Greek/Turkish relations. She had warned him that, while an improved atmosphere between Greece and Turkey was helpful, it was no substitute for direct negotiations between the two communities. Vassiliou had appeared to make withdrawal of Turkish troops and the de-militarisation of Cyprus a condition for progress. She had told him that this would simply erect a road block. The most he should say was that he was working for a solution under which the presence of foreign troops would in the long term be unnecessary. Moreover, since progress would only come about as a result of negotiations between the two communities, he must be prepared to meet with Mr. Denktash. A meeting with Mr. Ozal could come only after that. He should also be ready to work through the United Nations. The Prime Minister added that good-will gestures by both sides would make a resumption of negotiations easier.

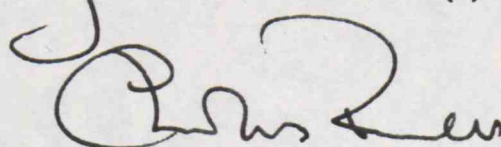
Mr. Ozal agreed that the first step must be for President Vassiliou to meet Mr. Denktash. It might then be possible to move on to a quadripartite meeting involving

Turkey, Greece and the leaders of the two communities. He saw Turkey's role as making it easier to solve the problem not to make it harder. But certain points had to be clear. Producing a map, he indicated why Turkey could never accept a Greek Cyprus right on its doorstep. Turkey did not want partition of Cyprus and accepted that it should be a unified state with a federal structure. As for the presence of Turkish troops, there had been no bloodshed in Cyprus since Turkish forces had been there. If they were withdrawn, he feared there would be a resumption of fighting.

Turning to the wider aspect of relations between Turkey and Greece, Mr. Ozal said that he knew that he had the courage to reach a solution to the Cyprus problem. But he was not sure about Mr. Papandreou: he doubted whether he was capable of making compromises. There would be people in both Greece and Turkey who would be highly critical of any agreement and would accuse Mr. Papandreou and him of selling out. He was prepared to confront the hard liners. Would Mr. Papandreou show similar resolve? The Prime Minister commented that her impression was that their meetings so far had been mostly atmospheric. Mr. Ozal agreed, adding that it would take time to develop a working relationship. But he would be going to Athens on 13 June with the intention of building on the progress already made.

I should be grateful if you would send a copy of this record to the Ambassador in Ankara.

I am copying this letter to Alex Allan (Treasury), Alison Brimelow (Department of Trade and Industry), Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

*yours sincerely,*  


C. D. POWELL

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.