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The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

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Prime Minister  
This seems a  
prudent way forward,  
although Dalan will be disappointed  
that we are not offering  
significant extra cash at this

Dear Charles, Agree to sign the two letters attached?  
Stage-3

THIRD BOSPHORUS BRIDGE AND ISTANBUL URBAN EXPRESSWAY

In your letter of 19 April approving the text of a holding reply to the Mayor of Istanbul you asked us to prepare as soon as possible a substantive reply from the Prime Minister. I enclose a draft.

CDP  
5/5

At his meeting with the Prime Minister, Mr Dalan suggested that the Bridge and Expressway projects might be combined and that the UK should provide increased aid for the Expressway and aid support for the supply of steelwork for the Bridge. Yusuf Ozal took much the same line with Lord Young, suggesting that both projects might be financed on a BOOT or lease-back basis. By contrast, Mr Dalan appears to have told Turkish contractors that it is the UK which has advocated a combined approach, and the agents of Wimpey and Tarmac have reported that the Turkish Treasury wants to press ahead with the Expressway and favours no linkage. These latter reports, which we do not regard as authoritative, have nonetheless hardened Tarmac and Wimpey in their view that the Turks do not want to combine the projects. The two companies, moreover, believe it is not in their interest to do so.

It could unstitch their contract, cause delay (perhaps Yusuf Ozal's tactic), undermine their existing deal if the project were converted to a Build Own Operate Transfer (BOOT) basis and, by attempting to finance both projects simultaneously, greatly increase the difficulties. Cleveland Bridge and Engineering (CBE) favour a combined approach believing that we have to respond constructively to the Mayor's ideas. Departments and the Ambassador (who does not believe a definitive Turkish view can be obtained) have concluded that

we need to give lip service to the idea of a combined project but in substance address each project separately. Tarmac/Wimpey, fearful that any linkage may delay their project and suspicious of Trafalgar House's motives, have reluctantly agreed to reply on the lines of the enclosed draft.

With the Expressway, the main aim must be to keep the project moving and Tarmac and Wimpey in the driving seat. We do not believe that by increasing the level of aid by, say, £5 million (although this may ultimately be needed), we would overcome Ankara's reluctance, deriving from understandable concern about Turkey's indebtedness, immediately to sign the contract. The suggested offer of free site investigation should save the Turks time and money. The offer to examine alternative methods of finance should appeal to Yusuf Ozal, although we expect that the study will confirm the companies' view that BOOT is impracticable and Build Lease Transfer is very expensive. In return, we ask for a personal assurance from the Mayor that the contract will be placed with Tarmac/Wimpey.

Cleveland Bridge and Engineering's hold on the Bosphorus Bridge project is altogether more tenuous. They need to improve their position by casting doubt on Dr Brown's design and/or by satisfying themselves that, given the opportunity to work with STFA, it can be supported. The proposed free study addresses this, while the offer to examine the financing is intended to demonstrate that only CBE's proposal is truly on a BOOT basis and capable of attracting commercial money. Again, we are not convinced of the need to increase the concessionality, and indeed the draft makes clear that ATP support can be offered only for a project and not for the supply of steel.

We can by no means be sure that this response will be acceptable to the Mayor. He professes to believe that our aid support for the Expressway is at a lower rate than that for the Bridge (the rate is identical), and is doubtless expecting more. While our guess is that neither project will proceed for perhaps a year, Mr Dalan could well award the Bridge contract to STFA. He may find, as CBE believe, that offshore finance for an unproven design cannot easily be raised. However, we suspect that the Italians would work with STFA and the Japanese may step in with offers of finance. One of our aims must be to keep the Japanese tied in with the British bids for both projects.

# dti

the department for Enterprise

We think it essential that the Turkish Government be brought more fully into the picture and recommend that the Prime Minister also write to Mr Turgut Ozal to inform him of what she has proposed to Mr Dalan. A draft letter is enclosed. We suggest that the Ambassador should mention this when handing over the Prime Minister's letter to Mr Dalan. (We would send the Ambassador a covering telegram of instructions and background).

The Treasury, FCO and ODA, and ECGD are content with this approach, as is our Ambassador in Ankara. I am copying this letter to Lyn Parker (Foreign and Commonwealth Office), Alex Allan (HM Treasury) and Myles Wickstead (Overseas Development Administration).

Yours ever

Stephen Ratcliffe

STEPHEN RATCLIFFE  
Private Secretary

the  
Enterprise  
initiative