

PRIME MINISTER

## MEETING WITH THE TURKISH DEFENCE MINISTER

You have agreed to see the Turkish Defence Minister briefly tomorrow morning. He will be accompanied by the Ambassador and the Director of the Defence Industries Development Association. He apparently bears a message from Mr. Ozal.

The best bet is that he will tell us that Marconi have won or will win the military radios contract which you discussed during your visit, but may try to extract better credit terms. ECGD would be ready to discuss arrangements which would help the Turks ease the cash flow burden in the early years. You could speculate about this, but will not want to make a firm commitment.

Other defence sales prospects do not look too bright. We seem to have lost Zeus - the electronic warfare suite which Marconi offered for the F16 aircraft - to American competition, even though no-one else has chosen the American system. You will want to enquire about this and see if, even at this late stage, it can be salvaged. If the Turks ordered it, we might be able to put together a credit package linking Zeus and the radios on advantageous terms. There are some other prospects including mobile radars.

There are some political topics which might come up:

- the Turks fear that the flank countries may be isolated in the negotiations on conventional force reductions. You can reassure him that we are determined to maintain NATO's strategic unity.
- WEU. The Turks have applied but have been stalled, as have the Greeks.

- EC. The Commission are likely to make a first report to the Council by the end of 1989. There is nothing we can say in the meantime.
  
- Cyprus. You are seeing President Vassiliou again in March.

There is fuller briefing in the folder.

C.D.P.

CHARLES POWELL  
24 January 1989

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EGBUP



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1A 2HB  
Telephone 01-218 2111/3

MO 14/25V

24th January 1989

Dear Charles

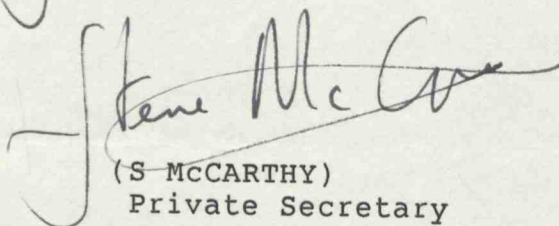
VISIT OF MR VURULHAN

I attach briefing on Defence Sales issues for Mr Vurulhan's call on the Prime Minister tomorrow morning.

I understand that Vurulhan will probably be accompanied by the Turkish Ambassador, and by the Director of Turkey's Defence Industries Development Administration (DIDA), Mr Erdem (who holds the personal rank of Ambassador). The DIDA is responsible for promoting the development of Turkey's defence industrial base through joint ventures with foreign companies involving the transfer of technology and industrial know-how.

I am copying this letter to Richard Gozney (FCO) and to Carys Evans (HM Treasury).

Yours ever

  
(S-MCCARTHY)  
Private Secretary

Charles Powell Esq  
10 Downing Street

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DEFENCE SALES BRIEF FOR THE PRIME MINISTER'S MEETING WITH THE TURKISH DEFENCE MINISTER, 25 JANUARY 1989

POINTS TO MAKE

1. GENERAL

- Welcome opportunity of discussing defence business, and pleased that British companies are making joint venture proposals that would benefit both our industries.
- If ZEUS were reconsidered, the Company believe it might be advantageous to the Turkish Government to consider linking the credit packages for Zeus and the radios and would be pleased to discuss this.

2. MILITARY RADIOS

- (If British company selected). Naturally very pleased and hope this paves the way for further joint venture opportunities between our industries.
- (if British company selected on certain conditions). As above, plus we are willing to study urgently alternative financial arrangements or other proposals that might be made.
- ZEUS
- Disappointed that ZEUS has been rejected, particularly as no integration study was carried out despite Marconi's willingness to pay.
- Also surprised since ZEUS is in operational service with the RAF, whereas RAPPORT is not in service with any USAF aircraft, and Belgians have decided not to procure it.



BACKGROUNDMilitary Radios

1. In a number of discussions during the past few days with our Embassy in Ankara, the Turkish Defence Minister has said that he would like to see the Prime Minister, primarily to discuss defence sales (in particular the military radio contract) and to deliver a personal message from Mr Ozal. The Defence Secretary will host a working lunch for Mr Vuralhan on 25 January.
2. During the Prime Minister's visit to Turkey last year Mr Ozal told her that a British company was very likely to win a contract for high frequency single side band (HFSSB) radios for the Turkish Army, and that a decision was due in July. Marconi, Plessey and Siemens are in competition; the initial value would be about £85M, rising in the longer term possibly to £250M. In November Mr Vuralhan explained to Mr Sainsbury that the decision had slipped because tests to validate the requirement had taken longer than expected.
3. On 18 January Mr Vuralhan told HMA Ankara that, following a meeting chaired by Mr Ozal four days before, British companies, especially Marconi, were well-placed, and that he would like to visit London shortly for further discussions. Informal indications are that Marconi are in the lead technically, commercially and on price.
4. Mr Vuralhan has been reticent about disclosing what he intends to say in London, but piecing together all the intelligence indicates something along the following lines:
  - a. that the radio contract will probably be placed with Marconi,
  - b. that (and this may be a pre-condition of a.) the credit support should be improved to help the Turkish Government over their debt repayment hump in the early 1990s,



c. that the contract could form the basis for British involvement in the development and expansion of the Turkish electronics industry,

d. that the radio contract (and possibly c. above) may be combined with other defence sales prospects (see Annex) in some kind of package deal.

5. On b. there is no firm evidence that Siemens are offering better credit terms than the British companies, though it is a fact that they may be pressing the German Government sometime to provide aid to Turkey on soft terms for defence equipment. ECGD is ready to consider with Marconi and Plessey and their bankers alternative arrangements that would help to ease the cash flow burden in the early years, although it may not be possible to go as far as the Turks would wish without incurring extra costs. Additional major improvements would be considered only if it were to become clear that they were essential to secure the business. Mr Vuralhan has said that he fully understands HMG's policy on military aid.

6. From the defence sales standpoint a package involving Turkish commitment to more than one project is an attractive idea. There are a number of options. Marconi, for example, are bidding for two major requirements: the F16's electronic warfare suite and mobile radars, and in the latter case are teamed with the same joint venture company (Mimsas) as on the radio contract. There are other important longer-term prospects that are summarised in the Annex.

#### Credit

7. However, ECGD cover is extremely limited with over £800M potential civil and defence business chasing £170M of the £750M limit still available. A defence credit package (even if



considered under the £1,000M defence facility) could significantly increase ECGD's exposure on Turkey, which might cause difficulties given Turkey's current economic problems. Moreover, if cover were tied up with a defence package and was not fully utilised it could prevent other business going ahead.

8. The ECGD cover position is under review. Whilst this will take into account any proposals made in connection with the award of the radio contract, there is no certainty that additional cover would be agreed. There should be no cover problem with the radio contract but it will leave only about £80M for other projects.

#### ZEUS

9. At the end of December the Turkish Government chose the RAPPORT Electronic Warfare (EW) suite made by Loral of the US for their F16 C and D aircraft. This has not been formally announced but neither has it been denied. This was a great disappointment to Marconi who had offered their ZEUS system, which is in service with the RAF's new Harriers. If ZEUS is to realise its market potential it has to be sold to an Air Force operating the F16, and Turkey would have been the vital launch customer. Last April Mr Ozal mentioned to the Prime Minister the strength of the American competition.

10. RAPPORT is not, however, in service with any USAF aircraft; it has been installed in the Israeli F16 A and B but they are basically different aircraft from the F16 C and D. The Belgians studied the integration of RAPPORT into their F16s but decided not to proceed with the system. ZEUS's great disadvantage is that it has never been the subject of an integration study. It could be done only with the co-operation of the Turkish authorities, and Marconi have offered to pay for it, but they have not been given the chance even though a study was undertaken for RAPPORT. To study ZEUS, which could take some months, now,

might delay the F16 programme, but it might also show it to be the superior system.

11. A contract in due course for Marconi would be worth about £180M. Because of the limited amount of credit cover available ECGD cannot give an indication of cover until the market has been reviewed. Recently Marconi have arranged a new support package involving private sector finance, which could be tailored to suit the Turkish Government's requirements and could, if required, embrace both ZEUS and military radios. Marconi would be pleased to discuss this further.



SUMMARY OF OTHER MAJOR DEFENCE SALES PROSPECTSMOBILE RADARS

Marconi Radar have submitted proposals for the Turkish Air Force requirement for 14 advanced 3D Radars (value £130M). It is expected that DIDA will complete their evaluation of the proposals by mid February when a shortlist of 3 will be drawn up.

Marconi are working with MIMSAS, the same Turkish partner who is collaborating with Marconi Communications on the HFSSB Radio project. Thomson (CSF) are offering stiff competition.

RAPIER

In November BAe heard that Rapier Laserfire had not been shortlisted for the Turkish Army's low level air defence requirement (worth about £400M). Recently there have been indications that the Turks might be interested in a presentation on a more sophisticated version of the missile system. The security implications are being addressed.

PROJECT EAGLE

The Turkish Army has a requirement (worth £350M-£400M) for a fire control system for its Oerlikon 35mm anti-aircraft guns. Competing firms have until the 31 March to make their offers. Racal are offering their Possum surveillance radar with a tracking radar from their sub-contractor, Marconi. The competitors are Contraves (Switzerland) and HSA (Holland). Racal have had a 6 man team in Turkey over the past 2 weeks to set up a joint venture company with Teletas, called TELERAC. The Turks seems very interested in Eagle, which is a major medium-term prospect.

SKYFLASH

The Turks have shown considerable interest in BAE's active Skyflash medium range air-to-air missile to arm their F16 aircraft. It is the only "fire and forget" missile likely to be available in the required timescale, and its selection would provide an excellent basis for developing Turkey's guided weapons technology.

MINEHUNTERS

The Turkish Navy has a requirement for Minehunters for which the specifications will be issued by March 1989. It is intended that the construction will be carried out in country (either at the Taskizak or Golcuk shipyards) by a joint venture company. Vosper Thornycroft intend to bid.

HELICOPTERS

Turkey has a requirement for 225-400 helicopters. Proposals will be invited from all leading manufacturers, including Westland, although they do not at present have a licence for the Sikorsky Black Hawk (a leading contender) in Turkey. This would be an ambitious and expensive procurement; it envisages the creation of a Turkish helicopter industry. Ideally Sikorsky and Westland should collaborate on such a project, making maximum use of US foreign military aid for Turkey.