

PRIME MINISTER

MEETING WITH THE TURKISH DEFENCE MINISTER

You are to see the Turkish Defence Minister, Mr. Giray, briefly on Monday. The main purpose is to improve our chances of winning a major defence order. You saw the present Minister's predecessor about a year ago, and eventually we secured the contract for radio sets for the Turkish army.

You will, I am sure, want to wrap up the real purpose of the meeting by talking first about wider East/West developments. You will want to reassure Mr. Giray that we want to keep NATO as the foundation of the West's defence, with Turkey having a key part. You will want to refer to the discussions about Cyprus which the United Nations Secretary-General is currently conducting and mention that you will be seeing President Vassiliou later in the week. You will also want to refer to your forthcoming visit to Turkey for the Gallipoli 75th Anniversary celebrations, when you hope to meet President Ozal.

At the right moment you will want to slip in our interest in securing the contract for a fire control system for Turkey's air defence gun. There is strong competition for this, but a British company, Racal, is apparently well placed to win the contract both technically and on price. But in Turkey things tend to be awarded on political grounds and every high level appeal helps. Racal has a good Turkish partner. If Mr. Giray asks about credit, you will have to avoid a commitment as we are already well over the prudent limit. The radio contract was concluded on a cash basis, and we would hope to do the same in this case.

C.D.P.

(C.D. POWELL)

2 March 1990

cc/c
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MO 14/25D

2nd March 1990

Dear Charles

VISIT OF THE TURKISH DEFENCE MINISTER, 5TH MARCH 1989

The Prime Minister has agreed to a short call by Mr Giray, the Turkish Defence Minister, on Monday 5th March at 1530. Mr Vahit Erdem will probably accompany Mr Giray. He is now the Turkish Under Secretary for Defence Industry and was present when the Prime Minister met Mr Giray's predecessor in January 1989. You will recall that the main subject which the Prime Minister may wish to raise is Racal's proposal for a Fire control system for Turkey's 35mm air defence gun.

As you will be aware, on 9th January, after lengthy negotiations, Marconi signed a contract worth £96M with the Turkish government for the supply of radio sets to the Turkish Army. This project, which was discussed with the Prime Minister by Mr Giray's predecessor (Mr Vurulhan) in January 1989, is the first major defence contract won by British industry in Turkey for some years and the Prime Minister might like to say how pleased she is that that this contract, which represents a milestone in defence co-operation between our countries and provides a sound basis for future joint ventures, has now been signed. Mr Giray's visit to the UK provides an excellent opportunity to build on that success.

PROJECT EAGLE

Currently the most important defence sales prospect in Turkey is Racal's proposal for a fire control system for Turkey's 35mm air defence guns. This sale would be worth some £300-350M and a decision is imminent. Racal is offering Project Eagle (its own surveillance radar and a Marconi tracker) but there is strong competition from the Dutch (HSA) and the Swiss (Contraves). Racal has set up a joint venture company with its Turkish partners, TELETAS, to which it will transfer technology, culminating in the manufacture of complete Eagle systems in Turkey.

Racal is reported to be in the lead both technically and on price. However, the Dutch government which made a substantial gift of surplus equipment to Turkey in 1988 but has yet to win a major



defence contract, is believed to be lobbying hard. However, Racal's chances are complicated by the major civil satellite project TURKSAT, on which BAe are in the final stages of contract negotiation. The Prime Minister wrote to President Ozal on this on the 29th December. There are suggestions that the Turks might be inclined to share out big contracts to further their foreign policy objectives and a BAe success in this could well count against Eagle. The Defence Secretary wrote to Mr Giray on Project Eagle on the 12th February. I attach a copy of his letter.

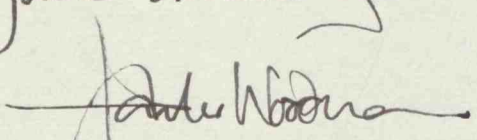
On Project Eagle, the Prime Minister might like to say to Mr Giray that she understands Racal's proposal to be technically excellent and to involve a substantial transfer of technology. She might add that Racal, who are a first class company, have been very impressed by TELETAS' facilities and management and are keen to collaborate with them on this project.

CREDIT

Provision of further export credit cover for Turkey is difficult and the Prime Minister should avoid giving any commitment. ECGD's new Portfolio Management System indicates a stock control review point for Turkey of only £350M compared to the existing market limit of £750M. ECGD's current exposure in Turkey is already close to £600M.

If Mr Giray raises the availability of credit we recommend that the Prime Minister says she understands a recent Marconi contract for military radio equipment was successfully completed on a cash basis. We continue to be ready to explore with the Turkish Government the possibilities for co-operation in the field of defence sales, but our capacity to provide further credit support is not unlimited because of the strong competition for available cover.

I am sending copies of this letter to Stephen Wall (FCO) and Carys Evans (Treasury).

Yours sincerely

 (I M WOODMAN)
 Private Secretary