900

277-H-093
2770438 (5)
~~PD-AAC-~~
PD-AAC-298-D1

38p

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

TURKEY - EREGLI STEEL MILL EXPANSION - STAGE I

277-24-230-5%

AID-DLC/P-985/2

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

UNCLASSIFIED

AID-DLC/P-985/2

April 4, 1972

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Turkey - Eregli Steel Mill Expansion - Stage I Amendment

Attached for your review are the recommendations for increasing by $25,000,000 a loan (No. 277-H-093) made to the Government of Turkey in an amount of $15,000,000 to be made available by a reloan to Eregli Demir ve Celik Fabrikalari Turk Anonim Sirketi, a Turkish Corporation, to assist in financing the foreign exchange costs of commodities and services for the Stage I Expansion of its steel mill at Eregli.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Wednesday, April 12, 1972.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:
- Summary and Recommendations
- Project Analysis
- ANNEXES 1-9

UNCLASSIFIED

AID-DLC/P-985/2

April 4, 1972

TURKEY - EREGLI STEEL MILL EXPANSION - STAGE I

Table of Contents

AID-DLC/P-985/2

April 4, 1972

SUMMARY AND RECOMMENDATIONS

Eregli Steel Mill Expansion - Stage I

1. Applicant: Government of Turkey (GOT)

2. Amount: $40,000,000 (including $15,000,000 previously authorized).

3. Loan:
   (a) 40 year maturity including a 10 year grace period.

   (b) 2% per annum interest during grace period and 3% per annum thereafter.

4. Total Cost Project and Source of Funds:

Foreign Exchange Costs	(Millions)
A.I.D.	$ 40.0
Exim Bank	70.0
IBRD	76.0
Total	$186.0
Local Currency Costs (from Eregli)	60.0 (Equiv.)
Grand Total	$246.0

5. Description of Project: To expand the steel making and hot rolling facilities of Eregli Demir ve Celik Fabrikalari T.A.S. ("Eregli") to provide a production capacity approximately double the existing one.

6. Purpose of Project: To enable Eregli (a) to meet the estimated domestic market demand for flat steel products in Turkey, and (b) to improve plant economics and the financial position of the company.

7. Background of Project: A.I.D. has been associated with Eregli since its inception. It provided most of the foreign exchange needed to build the original plant and has made two dollar loans and one local currency loan subsequently. A.I.D. has also been closely involved in the preparation of the feasibility study on which this expansion project is based and has participated with the other lenders, primarily the IBRD, in the further development of the

project and of the financing plan. Earlier assumptions regarding the availability from the GOT of foreign exchange to cover up to $30 million of project costs are no longer valid. In addition, the foreign exchange cost of the project is now estimated to be $11 million higher than assumed earlier. Both the IBRD and EXIM Bank have increased their commitments to the project and we propose to increase the amount of the A.I.D. loan authorized in July, 1971 from $15 million to $40.0 million.

8.	EXIM Bank Interest:	Exim Bank indicated on November 18, 1971 that it has no interest in increasing the amount of its participation in the financing.
9.	Mission Views:	Mission endorses the proposed loan.
10.	Statutory Criteria:	Satisfied - see checklist.
11.	Issues:	None.
12.	Recommendation:	That the existing authorization dated July 14, 1971 be amended by increasing the loan amount from $15.0 million to $40.0 million.

<u>Capital Project Committee Members</u>

Loan Officer:	Michael F. Speers
Engineer:	Charles McNaron
Counsel:	Stephen Stein
Drafting Officer:	Michael F. Speers

1.0 Background:

1.1 This paper updates the information, analysis and conclusions contained in a Capital Assistance Paper, dated June 18, 1971 (AID-DLC/P-985) which was reviewed by the DLC and formed the basis of a Loan Authorization signed by the Administrator on July 14, 1971. It takes into account the agreements reached between A.I.D., the GOT and Eregli regarding the deferral of payments under existing loans and discusses other developments which have occurred since then.

1.2 The project facilities described in the CAP of June 18 remain unchanged; similarly, the assumptions, findings and projections then made in the area of marketing, management and sales volume remain the same. This paper discusses only those areas where earlier statements or findings need to be changed.

1.3 When the June CAP was prepared the foreign exchange cost of the project was estimated at $175 million, leaving at that time a gap in the foreign exchange financing of $30 million. It was assumed that this gap would be filled either through an underwriting commitment by the GOT and/or the use of European bilateral credits. The GOT has since indicated that it would be unable to provide a specific foreign exchange underwriting in the amount needed and, after discussion with European financing sources, it became apparent that foreign exchange credits for the project from those sources would not be available. Therefore, after consultation between A.I.D., the IBRD and Eximbank, A.I.D. tentatively agreed to consider increasing its loan from $15 million to $40 million, the IBRD indicated its willingness to recommend to its board an increase in its loan from $65 million to $76 million, and the Eximbank agreed to increase its commitment from $65.0 million to $70 million. Together, these credits will provide foreign exchange totaling $186 million, an amount adequate to finance the foreign exchange costs of the project now anticipated, including a $5.0 million contingency amount for foreign exchange cost overruns beyond escalation and normal contingencies included in the cost estimates.

1.4 A substantial revision of the financial projections became necessary when the Government of Turkey decreed, in August 1971, substantial increases in the price of many commodities, including coal. At the same time, the Government authorized Eregli to increase the prices charged for its products by an average of 24½%. It had been anticipated that Eregli would be allowed a price increase of approximately 10½% (the increase reflected in the projections included in the earlier CAP). The effect of the current prices of raw materials and services and of its increased sales prices is reflected in this paper. Account has also been taken of the present value of the Turkish lira which, in December 1971, was increased from TL 15 to TL 14 for $1.00.

2.0 Capital Costs

The capital cost estimates set forth in the CAP of June 18 were revised after the visit of the IBRD appraisal team to Turkey in September 1971.

The new estimates reflect the addition of certain pollution abatement equipment which ecological experts accompanying the IBRD team recommended. The new estimate of the cost of such equipment is $3 million, an increase of $2 million. On the initiative of the IBRD, $1 million was added to provide funds for a technical assistance contract between Eregli and an operating steel producer. Minor changes were also made in the cost estimates for spare parts and ancillary equipment. Also on the initiative of the IBRD, an additional foreign exchange contingency amounting to $5 million was added. All of the local currency costs, now estimated at TL 840 million ($60 million equivalent) will be financed by Eregli. Table 1 which follows sets forth the revised capital cost estimates, by major item.

TABLE 1

ERDEMIR

SUMMARY OF ESTIMATED CAPITAL INVESTMENT - STAGE I
(in Thousands of Dollars)

		Foreign Exchange Cost 1/	Local Cost 2/ 3/	Total
1.	Coke Battery & By-products - 85 Ovens	$ 16,399	$ 5,028	$ 21,427
2.	Blast Furnace - 29'6" Diameter	24,688	8,253	32,941
3.	Mold Preparation Area	588	250	838
4.	Scrap Preparation Area	813	285	1,098
5.	BOF Alterations	5,313	2,337	7,650
6.	3rd BOF Vessel - 90 MT/HT	4,173	2,155	6,328
7.	Burnt Lime Kiln - 225 MT/D	1,135	380	1,515
8.	Oxygen Generator - 200 MT/D	4,292	970	5,262
9.	Billet Caster - 300,000 MT	11,756	2,290	14,046
10.	Soaking Pit Crane	601	39	640
11.	Hot Strip Mill	56,591	12,125	68,716
12.	Plate Finishing	2,092	927	3,019
13.	Rotary Plate Shear	1,308	315	1,623
14.	Pickling Line #2	6,409	1,905	8,314
15.	Cold Mill - Incr. Speed	4,658	1,160	5,818
16.	Batch Anneal - 6 Furnaces & 18 Bases	1,905	567	2,472
17.	Temper Mill #2	7,806	2,522	10,328
18.	Shear Line #2	3,380	1,020	4,400
19.	Power House	7,585	1,882	9,467
20.	Utilities & Services	8,058	8,348	16,406
21.	Ship Unloader	2,029	238	2,267
22.	#3 Boiler	3,381	794	4,176
23.	Extension of Ore Yards	2,040	1,710	3,750
24.	Provision for Ecology	3,000	900	3,900
25.	Technical Assistance	1,000	3,600	4,600
26.	Additional Foreign Exchange Cost Overrun Contingency	5,000	-	5,000
		$186,000	$60,000	$246,000

Note:

1/ Foreign Exchange Costs include provision for escalation at 6 percent per year and contingencies of 6.1 percent.

2/ Local Currency Costs include escalation at 10 percent per year and contingencies of 7 percent.

3/ Computed at rate of TL 14 = $1.

Items 1 through 24 include engineering costs aggregating about $8.5 million in foreign exchange and TL 42 million in local currency.

3.0 Financial Considerations

3.1 Financing Plan. With the conclusion by A.I.D. of the recent deferral negotiations with the GOT and Eregli, a firm financing plan which provides for all project costs and contingencies has been agreed upon. Table 2, below, describes this plan.

TABLE 2 ($ Millions)

Source	FX Costs	Lira Costs 1/	Total	Percentage of Total
AID	$ 40.0	$24.8	$ 64.8	24.7%
GOT	-	51.6 2/	51.6	19.7%
EXIM	70.0 3/	-	70.0	26.6%
IBRD	76.0	-	76.0	29.0%
TOTAL	$186.0	$76.4	$262.4 4/	100.0%

1/ All Lira costs of the expansion are to be met by Eregli, principally from cash freed by deferrals of existing AID and GOT loans in the amounts shown.

2/ GOT deferrals of interest and principal payments on existing loans to Eregli during the construction period aggregate $13.6 million equivalent with the balance representing deferrals during the period 1976-1987; deferrals during the latter period are intended to provide increased security for the service of foreign exchange debt.

3/ Exim's commitment of $70.0 million includes $5.0 million as a supplemental contingency for FX cost overruns. Since Eregli will be required to make cash down payments equivalent to 10 percent of the amounts drawn, the new money provided under the Exim loan package is only $63.0 million, assuming that the entire credit is used.

4/ This amount does not include start-up costs or increases in working capital.

3.2 Financial Projections.

A number of assumptions made in the projections presented in June 1971 have changed. No attempt has been made to calculate the impact of each of these changes separately but their cumulative effect is reflected in the Profit and Loss and Cash Flow Statements presented in Annexes I and II. The last line of Annex I compares the revised forecast of net profit after tax with the corresponding forecast contained in Annex III, Table 1 of the June CAP. The changed assumptions are listed below, classified according to their favorable or unfavorable effect on the earlier projections. Their aggregate impact has been a net improvement in after-tax profits during the period 1971-1982 of TL 1,250 million ($88.5 million) over the projections shown in Annex III, Table 1 of the June CAP.

3.3 The following changes in assumptions have had a favorable effect:

1. The average increase in Eregli's sales prices of 24.5 percent as against an increase of 10.5 percent assumed previously. (That increase is now in effect.)

2. A reduction of FX debt service due to revaluation of the Lira with respect to the U.S. dollar from TL 15 to 14 = $1.00.

3. Downward revision of the interest estimated to be payable on new FX debt from 8 percent to a weighted average of 7.5 percent. (This is due to a refinement of previous estimates based on current interest rates.

4. The decrease in interest costs on GOT Lira loans, due to the substitution of deferrals of payments on existing debt for new loans which would have carried a higher interest rate.

3.4 The following changes have had an unfavorable effect on the projections:

1. A net increase in the Cost of Goods Sold of eight to nine percent. Locally purchased goods and services, as a result of price increases decreed by the GOT, local taxes and transportation costs, will be higher than previously assumed.

2. The reduction in depreciation on assets purchased with foreign exchange will be lower than previously assumed due to the revaluation of the Lira.

3.5 The arrangements envisaged to provide Eregli with the cash needed to finance the local costs of the project, and to service its debt, were outlined in paragraphs 5.2-5.4 (pp. 14 and 15) of the CAP of June 18, 1971. In negotiations between A.I.D., the GOT, the IBRD and Eregli, the arrangements then envisaged were modified in some respects. The major substantive changes are:

(a) A.I.D. has agreed to defer, in addition to deferrals earlier agreed to, four semi-annual installments of the dollar repayable portion ('B' loan) of Loan 277-A-020;

(b) A deferral by the GOT to Eregli of a "104(g)" loan (made under Section 104(g) of P.L. 480) is not included because the GOT found that certain legal and administrative problems were difficult to overcome and because the effect of its deferral would have been marginal.

On January 18, 1972, A.I.D. and Eregli, and the GOT and Eregli, signed agreements effecting deferrals the substance of which is summarized below. The amounts so deferred are summarized in Annex 4.

3.6 A.I.D. agreed to defer:

(a) four semi-annual installments of the DLF 'B' Loan, A.I.D. Loan 277-A-020 (dollar repayable) commencing with the installment due October 2, 1972; interest will be paid currently and the deferred amounts will be amortized together with scheduled semi-annual installments then due, during the remaining maturity period of this loan.

Total payments deferred: $6,634,000
(TL 92,876,000)

(b) a portion of two semi-annual installments of principal due in 1972 and all principal payments due in 1973 on the DLF 'A' Loan, AID 277-A-020 (Lira repayable with M.O.V.); interest will be paid currently and the deferred principal amounts will be amortized together with scheduled semi-annual installemnts then due, on the dates specified for such installments within the maturity of the loan.

Total payments deferred: $12,900,000
(TL 180,608,000)

(c) the installments due on "Cooley" Loan 277-E-047 due on April 1, 1972 through and including the installment due on April 1, 1976; interest accruing from January 1, 1972 through and including the period ending

December 31, 1976 will be deferred and capitalized; deferred principal payments and capitalized interest will be paid together with semi-annual installments then due, on the dates now specified for the payment of such installments, with the first such payment due on April 1, 1977. Payments of principal and interest after that date will be subject to de facto subordination to foreign exchange debt service in accordance with a cash test.

Total Financial Effect: $5,315,000 (TL 74,411,000)

The total amount deferred by A.I.D. under these agreements is $24,849,000 or TL 347,886,000.

3.7 The GOT has agreed to

(a) defer principal installments on its "main construction loan" due on July 2, 1971 and thereafter until and including the installment due July 2, 1987; interest accruing during the period January 1, 1971 to December 31, 1975 will be capitalized; regular interest payments will resume on January 2, 1976 and the outstanding and capitalized interest will be repaid during the thirteen-year period commencing on January 2, 1988.

Total Payments Deferred: TL 594,002,000

(b) defer principal and interest payments due on its two "Special Development Fund" loans due on June 30, 1971 and thereafter until June 30, 1976, when payments will resume; interest, which will be capitalized during the deferral period, and deferred principal payments will be repaid together with regular installments, during the remaining maturity period; such payments will, however, be subject to a cash test and thus subordinated de facto to debt service on foreign exchange loans.

Total Payments Deferred: TL 61,651,000

(c) defer principal and interest on its "Interim Expansion" and "Sinter Plant" lira loans for a four-year period commencing January 1, 1972. The provisions for capitalization of interest, repayment and subordination described under (b) above, will apply.

Total Amount Deferred: TL 37,156,000

(d) establish a fund aggregating TL 30 million for Eregli's use during the construction period. Payments into the fund will be made by the GOT from payments of interest made by Eregli to the GOT on reloans of the new A.I.D. and IBRD loans. Amounts drawn by Eregli from this fund shall be considered a loan and be added to the principal outstanding under the GOT "Sinter Plant" loan commencing in 1976, with the terms of that loan applying to maturity and interest. To the extent Eregli draws on this fund, the effect is the same as any equivalent deferral and capitalization of interest due on the new loans.

The total amount deferred by the GOT, assuming all of the TL 30 million is drawn from the fund described under (d) above, is TL 722,809,000.

3.8 In addition to the above deferrals, the GOT has

(a) authorized the company to change its maximum depreciation rate on fixed assets from 29 years to 19 years for assets purchased prior to January 1, 1972 and to 15 years for assets purchased after that date;

(b) authorized an increase in the sales price of the company's products of an average of 24.5% over 1970 price levels;

(c) furnished A.I.D. its guaranty of the existing, previously unsecured AID Loan 277-A-020 to Eregli with an outstanding balance of about $138.0 million. (Subsequent A.I.D. dollar loans for Eregli were made to the GOT and are, therefore, guaranteed.) The GOT has thus assumed a contingent liability of about $138.0 million. The guaranty becomes effective upon the signing of the agreement for the A.I.D. loan here proposed.

3.9 The financial projections in Annexes 1 through 4 are the same as those used by the IBRD in its Appraisal Report (Report No. PI-13a) dated February 4, 1972. These projections were prepared before agreement was reached to provide a supplementary contingency of $5.0 million in the EXIM loan and do not reflect its drawdown. Similarly, the use of funds for a contract to provide technical advisory services is not reflected in the cash flow projections because the inclusion of $1.0 million for this purpose in the IBRD loan was agreed upon after completion of the statements and its effect on the forecasts would, in any event, be marginal. The projections therefore are based on a foreign exchange cost of $180 million. They reflect the changed assumptions listed above in paragraphs 3.3 and 3.4 and the arrangements regarding deferrals, depreciation and steel prices described in paragraphs 3.6 through 3.8.

3.10 Comments on Profit and Loss Statement. (Annex I)

The decrease in profits anticipated for 1972 and 1974 is due to increases projected for payments of interest and of corporate taxes caused, respectively, by modifications of the deferral arrangements and by changes in the project schedule, timing of drawdowns and, therefore, the availability of investment credits. Subsequent years show substantially better profitability than calculated earlier.

3.11 Comments on Statement of Source and Application of Funds. (Annex II)

Our projection of Eregli's cash position made last June showed a substantial deficit in 1973. At the time, it was anticipated that short-term commercial borrowing or government loans would fill that gap. Further review with the GOT and Eregli led to the conclusion that new government loans could not be expected and that the interest cost of commercial funds made this method of financing unattractive. The deferral agreements now concluded eliminate that problem. Sufficient cash is now expected to be available in each year not only to meet that year's cash requirements but also to provide a balance equivalent to approximately two weeks' sales revenues. In the years following the construction period, i.e. from 1976 onward, cash reserves should increase substantially, permitting Eregli to begin financing future capital investment largely from internal cash generation, or to prepay some of its debt.

3.12 Comments on Balance Sheets. (Annex III)

The Balance Sheet projections show a drastic improvement in Eregli's financial structure. The ratio of long-term debt to net worth decreases from 4.4:1 in 1971 to 2.5:1 in 1976 and to 1.4:1 in 1978, assuming no further long-term borrowing. This improvement reflects the increased earning power of the company.

3.13 Debt Service Coverage.

The deferral arrangements described earlier have resulted in satisfactory debt service coverage ratios during the entire period analyzed. We have calculated the ratio two ways both of which are shown in Table 3, below. Line 1 shows the results of calculating the ratio on a current basis for each year, excluding the cash balance carried over from the end of the preceding year. Even on this conservative basis the ratios provide ample protection for the lenders. Line 2 of Table 3 shows the results of calculating the ratio on a cumulative basis. The previous year's cash balance is taken into account but the available cash has been reduced by TL 100 million to provide a cushion for contingencies.

On that basis, the cash available for debt service is more than twice the amount needed for that purpose in each year, reflecting the effect of the substantial cash generations expected after the completion of the project.

TABLE 3 - DEBT SERVICE COVERAGE

	1976	1977	1978	1979	1980	1981	1982
1. Current Basis	2.25	1.53	1.61	1.67	1.67	1.77	2.01
2. Cumulative Basis (Contingency deducted)	2.36	2.35	2.81	3.33	4.22	4.74	6.13

3.14 Sensitivity Analysis.

The results of calculations made to determine the effect of fluctuations in the volume of products sold, sales prices, manufacturing and other costs and quality of ore were presented in Annex V to the CAP of June 1971. These calculations have not been repeated using figures from the revised projections included in this paper. Due to the improvement in the projections of operating results presented in this paper over earlier estimates, such calculations would have resulted in a higher break-even point, both for volume and price fluctuations, increased the effect of a decrease in manufacturing costs, generally reduced the effect of other cost increases and left the effect of variations in the quality of ore unchanged. (Price reductions could reach about 30 percent before the break-even point would be reached.)

4.0 Economic Considerations.

4.1 Comparison of Eregli's Prices with World Market.

In the course of its appraisal of the Project, the IBRD undertook a detailed study of Eregli's prices and comparable world market prices. (IBRD Report No. PI-13a discusses the methodology used and the findings in paragraphs 10.05 through 10.10, Annex VI and Table 26.) Taking full account of the difficulties inherent in any comparison of steel prices (which are due to a great number of variables in quality, specifications, size of product, size of order and commercial terms) and of the uncertainties in the pricing of European steel due to recent currency realignments, the IBRD calculates a "nominal protection"1/ of

1/ "Nominal protection" is the difference between Eregli's prices (adjusted for delivery to Istanbul) and the price of imported products, CIF Istanbul plus an adjustment of 10 percent to cover landing and financial charges.

Eregli's products of 11.7 percent and an "effective protection"[1] of 22.17 percent before giving effect to price increases in Europe which occurred early in 1972. If these prices were to increase by about 5 percent, the "effective protection" would be reduced to about 16 percent, if they increased by 10 percent it would drop to below 10 percent. These margins appear acceptable to us and have been so found by the IBRD.

4.2 Internal Rate of Return.

Last June, we calculated the incremental intended rate of return on the incremental investment at 14 percent and the corresponding economic rate of return at 15 percent. Both rates would be somewhat improved if the current projections were used but we have not carried out the complex recalculations in detail. The IBRD, using a different method of calculation, by which both inputs and outputs are adjusted to world market prices, arrives at an "internal economic return" of 18 percent.[2]

4.3 Foreign Exchange Savings.

We earlier calculated annual foreign exchange savings attributable to the project at about $38 million. The IBRD, using the current projections, calculates savings of $56 million after debt service. Using the same basis, the pay-off period for the foreign exchange debt related to the project is about 2½ years.[3]

1/ "Effective Protection" expresses the relationship between value added based on Turkish prices and value added based on world market prices.

2/ See paragraphs 10.13 through 10.16 and Table 25, op. cit.

3/ See paragraph 10.12 and Table 29, op. cit.

5.0 Implementation Plan.

5.1 Status of Loans for the Project.

Both the IBRD and the EXIM Bank, acting through their respective Boards of Directors, have authorized the establishment of loans and guarantees totalling $146 million. Authorization of the A.I.D. loan here proposed would provide the remaining $40 million. The IBRD has negotiated the agreement covering its loan with Eregli and the GOT and expects to sign within the next few weeks. A draft loan agreement covering the proposed A.I.D. loan has been reviewed with both the GOT and Eregli; no issues are expected to arise in completing the negotiations. The IBRD and A.I.D. loan agreements have been jointly reviewed to ensure dove-tailing of their provisions. A draft agreement covering the EXIM commitment is expected shortly.

5.2 Status of Other Agreements.

Both the letter agreement containing the GOT guarantee of A.I.D. loan 020 and the agreements between the GOT and A.I.D. on the one side and Eregli on the other covering deferrals of existing loans have been signed. The guarantee agreement will become effective when the first disbursement under any loan (IBRD, EXIM or A.I.D.) for the project has been made. The deferral agreements with Eregli will become effective when all three institutions have signed their respective loan and guarantee agreements.

5.3 Procurement Procedures.

Agreement has been reached by A.I.D., the IBRD and the EXIM Bank on their respective roles in financing the project. EXIM has informed the Borrower which items it intends to finance, and a list of such items is attached as Annex 7. The IBRD and A.I.D. have agreed among themselves and with Eregli that all other items will be subject to international bidding under IBRD procedures. Successful bids by U.S. suppliers will be financed by A.I.D. until A.I.D. funds are fully committed. Any successful U.S. bids submitted thereafter will be financed by the IBRD. Should all IBRD funds be committed before A.I.D. funds are exhausted, additional procurement will be restricted to the U.S. Arrangements are being made to reflect this arrangement, and the possible application of A.I.D. procurement procedures, in all Invitations-for-Bid. To the largest extent possible, those items for which world-wide competition is expected to have the greatest benefit for Eregli will be bid first and, as nearly as possible, simultaneously. Close liaison with the IBRD on procurement matters has been established and will be maintained throughout the implementation of the project.

5.3 Engineering.

After negotiation with several U.S. companies, the Board of Directors of Eregli selected the Koppers Company, of Pittsburgh, Pennsylvania, as engineers for the project. A contract was signed in February 1972. The contract will be financed by EXIM but the scope of services to be provided by Koppers is subject to approval by both the IBRD and A.I.D. That review is being carried out in close consultation with the IBRD and is to be completed, and Eregli advised of the conclusions, by March 31. Under the contract, Koppers will provide all engineering services required, including preparation of Invitations-for-Bid and evaluation of bids. Eregli was advised on August 6, 1971, that no firm acting as engineer could also be a supplier of equipment, and the IBRD advised Eregli of their substantially identical position on this issue.

5.5 Construction.

Construction of new facilities and installation of equipment will be carried out by Eregli with its own forces, supplemented where necessary by Turkish contractors. Suppliers of equipment will be made responsible for supplying erection supervision wherever this is necessary to ensure proper installation and operation. A detailed project schedule will be prepared and maintained by the Engineer. Initial orders for equipment should be placed by the summer of 1972 and the project completed by the middle of 1976.

6.0 Ecological Considerations.

The IBRD included in its Appraisal Mission two environment specialists who assisted in arriving at the conclusions contained in Annex 3 to the IBRD Appraisal Report. The major findings were the following:

- dust control measures are in operation but need to be improved in some respects;
- noise created by mill operations does not affect the surrounding area;
- smoke and fumes are being controlled to the extent this is technologically feasible;
- the Company intends to install a biological treatment plant for coke oven effluents;
- the Company intends to install facilities for the recovery or neutralization of acid from the pickle line;
- the Company intends to process waste process water before discharge into the sea;
- the Company intends to install a sewage treatment plant, possibly in conjunction with the Town of Eregli.

An amount of \$3 million is included in the cost estimates to cover the foreign exchange cost of the installations planned and, under the IBRD's agreement with the GOT and Eregli, detailed plans will be submitted for the IBRD's approval.

EREGLI IRON AND STEEL WORKS INC.

STATEMENT OF PROFIT AND LOSS

(TL MILLIONS)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
SALES PROCEEDS												
Iron and Steel Products												
By-Products												
Total Sales	1,262.0											
At 95 percent Operating Rate	1,262.0	1,490.9	1,730.2	2,212.8	3,136.0	3,317.7	3,317.7	3,317.7	3,317.7	3,317.7	3,317.7	3,317.7
COSTS OF GOODS SOLD												
Raw Materials		478.1	562.2	634.9	1,060.1	1,045.1	1,072.4	1,045.6	1,046.3	1,072.6	1,046.0	1,046.0
Reserves		55.7	59.1	73.5	84.9	95.8	97.7	94.5	94.5	97.7	94.5	94.5
Manufact. Labor & Benefits		107.3	122.2	161.2	170.6	178.7	199.7	201.9	204.2	215.5	222.0	228.6
Depreciation	204.9	212.8	218.3	335.1	427.2	442.3	450.6	454.0	457.4	465.7	469.0	472.4
Sundry Manufacturing Costs		200.0	228.8	330.7	398.2	427.0	452.8	435.2	435.2	452.8	435.2	435.2
Total Cost of Goods Sold	998.8	1,053.9	1,190.6	1,535.4	2,141.0	2,188.9	2,273.2	2,231.2	2,237.6	2,304.3	2,266.7	2,276.7
GROSS PROFIT	263.2	437.0	539.6	677.4	995.0	1,128.8	1,044.5	1,086.5	1,080.1	1,013.4	1,051.0	1,041.0
GENERAL EXPENSES												
Administration & Sales	23.9	38.7	40.2	35.1	32.3	31.9	32.8	34.2	35.8	36.0	36.8	37.8
Amortization of Start-up	-	-	0.2	0.3	5.8	12.9	16.4	17.7	17.6	12.1	5.0	1.4
Foreign Supervisory	2.5	6.3	13.8	15.0	15.0	15.0	7.5	3.8	-	-	-	-
	26.4	45.0	54.2	50.4	53.1	59.8	56.7	55.7	53.4	48.1	41.8	39.2
PROFIT BEFORE INTEREST AND TAXES	236.8	392.0	485.4	627.0	941.9	1,069.0	987.8	1,030.8	1,026.7	965.3	1,009.2	1,001.8
INTEREST	181.8	192.2	268.8	337.4	349.1	359.5						
Paid	165.3	144.2	217.1	282.4	290.5	313.3	340.8	310.0	279.4	248.9	218.1	188.3
GOT Construction Loan Capitalized	13.4	28.2	29.8	31.5	33.4	17.6						
Other-Capitalized	3.1	19.8	21.9	23.5	25.2	28.6						
NET INCOME BEFORE TAXES	55.0	199.8	216.6	289.6	592.8	709.5	647.0	720.8	747.3	716.4	791.1	813.5
Income and Corporation Taxes	17.3	63.6	51.7	87.1	220.7	267.7	239.9	270.2	280.2	266.2	296.9	305.4
NET INCOME AFTER TAXES	37.7	136.2	164.9	202.5	372.1	441.8	407.1	450.6	467.1	450.2	494.2	508.1
Net Income after Taxes July CAP	42.7	162.6	36.4	234.9	327.8	353.0	297.9	271.4	264.0	236.6	311.3	332.9
Net Improvement Present Forecast vs. July 1971 Net After Taxes	(5.0)	(26.4)	128.5	(32.9)	44.3	88.8	109.2	179.2	203.1	213.6	182.9	165.2

AID-DLC/P-985/2 ANNEX I

EREGLI IRON AND STEEL WORKS, INC.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS (TL MILLIONS)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
SOURCES OF FUNDS												
AID Expansion & Sinter Loans	155.9	60.2										
GOT Expansion & Sinter Loans	75.0	-										
French Credit	13.4	-										
New Foreign Exchange Loans	-	342.9	1,569.5	226.8	247.7	56.1						
Sale of Capital Stock	0.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0		
Interest Capitalization:												
GOT Construction Loan	13.4	28.2	29.8	31.5	35.4	17.6						
Other	3.1	19.8	21.9	23.5	25.2	28.6						
Accounts Payable Incr. (Decr.)	-	10.2	6.8	17.2	28.3	2.4	4.3	(2.1)	0.3	3.3	(1.9)	0.5
Customer Advances Incr. (Decr.)	39.2	(18.0)	23.9	48.3	92.3	(48.2)	-	-	-	-	(66.3)	-
Depreciation	204.9	212.8	218.3	335.1	427.2	442.3	450.6	454.0	457.4	465.7	469.0	472.4
Amortization of Start-up Exp.	-	-	0.2	0.3	5.8	12.9	16.4	17.7	17.6	12.1	5.0	1.4
Net Income Before Taxes	55.0	199.8	216.6	289.6	592.8	709.5	647.0	720.8	747.3	716.4	791.1	813.5
Short-Term Bank Credit	30.0	(30)	-	-	-	-	-	-	-	-	-	-
TOTAL FUNDS AVAILABLE	590.2	826.9	2,088.0	973.3	1,455.7	1,222.2	1,119.3	1,191.4	1,223.6	1,198.5	1,196.9	1,287.8
APPLICATION OF FUNDS												
Income Tax Including Bonuses	59.0	30.9	84.6	73.6	112.8	261.7	314.7	283.9	317.9	329.4	313.8	348.3
Capital Expenditures:												
Truncated Expansion Program	207.1	60.2	-	-	-	-	-					
Stage I Expansion-Foreign	-	352.8	1,625.4	232.4	254.1	55.3						
Stage I Expansion-Local	-	139.4	383.1	281.4	36.1	-						
Routine Capital Expenditure	48.0	25.0	25.0	25.0	25.0	25.0	50.0	50.0	50.0	50.0	50.0	50.0
Blast Furnace Reline	-	-	-	-	-	-	30.0	-	-	30.0	-	-
Start-up Expenses	-	1.0	0.6	27.3	35.6	17.8	7.0	0.1				
Inventories Incr. (Decr.)	305.9	-	-	119.6	522.9	148.4	(115.0)	57.5	57.5	(115.0)	57.5	57.5
Receivables Incr. (Decr.)	27.1	15.7	19.1	38.6	73.9	14.5	-					
Advances to Contractors Incr.(Decr.)	(65.7)	42.9	13.7	34.4	60.6	4.8	8.4	(4.2)	0.7	6.6	(3.7)	1.0
Old Foreign Exchange loans	118.0	14.6	9.3	167.3	196.7	196.7	196.7	196.7	196.7	196.7	196.4	135.9
Old Local loans	12.5	1.7	1.7	1.7	1.7	13.3	41.2	41.2	41.2	41.2	41.2	41.2
New Foreign Exchange loans	-	-	-	-	-	34.1	215.9	215.9	215.9	215.9	215.9	215.9
GOT Construction loan	15.1	-	-	-	-	-	-	-	-	-	-	-
TOTAL FUNDS ALLOCATED	727.0	684.2	2,162.5	1,001.3	1,319.4	771.6	748.9	841.1	879.9	754.8	871.1	849.8
Change in Cash	(136.8)	142.7	(74.5)	(28.0)	136.3	450.6	370.4	350.3	343.7	443.7	325.8	438.0
Cash Balance-Beginning	188.9	52.1	194.8	120.3	92.3	228.6	679.2	1,049.6	1,399.9	1,743.6	2,187.3	2,513.1
-Ending	52.1	194.8	120.3	92.3	228.6	679.2	1,049.6	1,399.9	1,743.6	2,187.3	2,513.1	2,951.1

AID-DLC/P-985/2 ANNEX 2

EREGLI IRON AND STEEL WORKS INC.

BALANCE SHEET (TL MILLIONS)

	1970 Actual	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
ASSETS													
Current Assets													
Cash	188.9	52.1	194.8	120.3	92.3	228.6	679.2	1,049.6	1,399.9	1,743.6	2,187.3	2,513.1	2,951.1
Accounts Receivable	76.5	103.6	119.3	138.4	177.0	250.9	265.4	265.4	265.4	265.4	265.4	265.4	265.4
Inventories	562.1	868.00	868.0	868.0	987.6	1,510.5	1,658.9	1,543.9	1,601.4	1,658.9	1,543.9	1,601.4	1,658.9
Advances to Contr. & Suppl.	128.4	62.5	105.4	119.1	153.5	214.1	218.9	227.3	223.1	223.8	230.4	226.7	287.7
Other	0.9	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Total Current Assets	956.8	1,087.6	1,288.9	1,247.2	1,411.8	2,205.5	2,823.8	3,087.6	3,491.2	3,893.1	4,228.4	4,608.0	5,104.5
Fixed Assets													
Gross Fixed Assets	3,502.7	3,613.7	4,191.3	6,224.7	6,763.5	7,078.8	7,158.9	7,238.9	7,288.9	7,338.9	7,418.9	7,468.9	7,518.9
Less: Accum. Depreciation	508.1	713.0	925.8	1,144.1	1,479.2	1,906.4	2,348.7	2,799.3	3,253.3	3,710.7	4,176.4	4,645.4	5,117.8
Net Fixed Assets	2,994.6	2,900.7	3,265.5	5,080.6	5,284.3	5,172.4	4,810.2	4,439.6	4,035.6	3,628.2	3,242.5	2,823.5	2,401.1
Other Assets	57.3	59.1	59.1	59.1	59.1	59.1	59.1	59.1	59.1	59.1	59.1	59.1	59.1
Start-up Expenses	-	-	1.0	1.4	28.4	58.2	63.1	53.7	36.1	10.5	6.4	1.4	-
TOTAL ASSETS	4,008.7	4,047.4	4,614.5	6,388.3	6,783.6	7,495.2	7,756.2	7,640.0	7,622.0	7,598.9	7,536.4	7,492.0	7,564.7
LIABILITIES													
Current Liabilities													
Accounts Payable	42.5	42.5	52.7	59.5	76.7	107.0	109.4	113.7	111.6	111.9	115.2	113.3	113.8
Customers Advances	127.9	167.1	149.1	173.0	221.3	313.6	265.4	265.4	265.4	265.4	265.4	199.1	199.1
Income Tax Res. & Bonuses	59.0	30.9	84.6	73.6	112.8	261.7	314.7	283.9	317.9	329.4	313.8	348.3	357.9
Long-Term Debt Due	145.6	16.3	11.0	169.0	198.4	244.1	453.8	453.8	453.8	453.8	453.5	393.0	393.0
Short-Term Bank Credit	-	30.0	-	-	-	-	-	-	-	-	-	-	-
Other	118.7	120.8	120.8	120.8	120.8	120.8	120.8	120.8	120.8	120.8	120.8	120.8	120.8
Total Current Liabilities	493.7	407.6	418.2	595.9	730.0	1,047.2	1,264.1	1,237.6	1,269.5	1,281.3	1,268.7	1,174.5	1,184.6
Long-Term Debt													
Old Foreign Exchange Debt	2,161.9	2,172.5	2,223.4	2,056.1	1,859.3	1,662.6	1,465.9	1,269.2	1,072.5	875.8	679.4	543.5	407.6
Old Bank Debt	229.5	305.9	324.1	344.2	366.1	378.1	365.3	324.1	282.9	241.7	200.5	159.3	118.1
New Foreign Exchange Debt	-	-	342.9	1,912.4	2,139.2	2,352.8	2,193.0	1,977.1	1,761.2	1,545.3	1,329.4	1,113.5	897.6
GOT Construction Loan	475.3	488.7	517.0	546.8	578.3	611.7	629.3	629.3	629.3	629.3	629.3	629.3	629.3
Total Long-Term Debt	2,866.7	2,967.1	3,407.4	4,859.5	4,942.9	5,005.2	4,653.5	4,199.7	3,745.9	3,292.1	2,838.6	2,445.6	2,052.6
EQUITY													
Capital Stock	523.3	523.6	524.6	525.6	526.6	527.6	528.6	529.6	530.6	531.6	532.6	532.6	532.6
Legal Reserves	11.7	14.5	24.5	35.3	49.8	79.4	114.9	147.3	183.3	220.7	256.5	266.3	266.3
Retained Earnings	113.3	134.6	239.8	372.0	534.3	835.8	1,195.1	1,525.8	1,892.7	2,273.2	2,640.0	3,073.0	3,528.6
Total Equity	648.3	672.7	788.9	932.9	1,110.7	1,442.8	1,838.6	2,202.7	2,606.6	3,025.5	3,429.1	3,871.9	4,327.5
TOTAL LIABILITIES AND EQUITY	4,008.7	4,047.4	4,614.5	6,388.3	6,783.6	7,495.2	7,756.2	7,640.0	7,622.0	7,598.9	7,536.4	7,492.0	7,564.7

EREGLI STAGE I PROJECTIONS

VALUE OF AID/GOT DEFERRAL ACTIONS

(TL Thousands)

	1971	1972	1973	1974	1975	1976	1977-1987	Gross amount Deferred	Total AID Deferrals
AID-A Loan									
Principal Deferred (Net)	-	84,004	96,604	-	-	-	-	180,608	
	-	84,004	96,604	-	-	-	-		
AID-Cooley Loan									
Principal Deferred	-	7,437	7,437	7,437	7,437	7,437	-	74,411	
Interest Deferred	-	8,650	8,032	7,437	6,842	6,265	-		
	-	16,087	15,469	14,874	14,279	13,702	-		
AID-B Loan									
Principal Deferred	-	23,219	46,438	23,219	-	-	-	92,876	
	-	23,219	46,438	23,219	-	-	-		347.9
GOT Loan									**Total GOT Deferrals**
Principal Deferred	15,143	30,286	30,286	30,286	30,286	30,286	302,860	594,002	
Interest Deferred	13,388	25,767	23,953	22,212	20,470	18,779	-		
	28,531	56,053	54,239	52,498	50,756	49,065	302,860		
GOT Development Fund									
Principal Deferred	3,006	6,011	6,011	6,011	6,011	6,011	-	61,651	
Interest Deferred	3,073	5,913	5,498	5,098	4,698	4,310	-		
	6,079	11,924	11,509	11,109	10,709	10,421	-		
GOT Interim & Sinter									
Principal Deferred	-	-	-	3,000	6,000	6,000	-	37,156	
Interest Deferred	-	4,110	4,750	4,750	4,451	4,095	-		
	-	4,110	4,750	7,750	10,451	10,095	-		692.7

AID-DLC/P-985/2 · ANNEX 4

ERENGLI IRON AND STEEL WORKS INC.

COMPUTATION OF ANNUAL DEBT COVERAGE

(TL MILLIONS)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Net Profit after Taxes	37.7	136.2	164.9	202.5	372.1	441.8	407.1	450.6	467.1	450.2	494.2	508.1
Interest Expense	181.8	192.2	268.8	337.4	349.1	359.5	340.8	310.0	279.4	248.9	218.1	188.3
Depreciation & Amortization	204.9	212.8	218.5	335.4	433.0	455.2	467.0	471.7	475.0	477.8	474.0	473.8
Total Funds for Debt Service (1)	424.4	541.2	652.2	875.3	1,154.2	1,256.5	1,214.9	1,232.3	1,221.5	1,176.9	1,186.3	1,170.2
Paid Interest	165.3	144.2	217.1	282.4	290.5	313.3	340.8	310.0	279.4	248.9	218.1	188.3
Principal Repayments	145.6	16.3	11.0	169.0	198.4	244.1	453.8	453.8	453.8	453.8	453.5	393.0
Total Debt Service	310.9	160.5	228.1	451.4	488.9	557.4	794.6	763.8	733.2	702.7	671.6	581.3
Debt Service Average (1)	1.37	3.37	2.86	1.94	2.36	2.25	1.53	1.61	1.67	1.67	1.77	2.01
Total Funds for Debt Service (1)	424.4	541.2	652.2	875.3	1,154.2	1,256.5	1,214.9	1,232.3	1,221.5	1,176.9	1,186.3	1,170.2
Cash Beginning of Year	52.1	194.8	120.3	92.3	228.6	679.2	1,049.6	1,399.9	1,743.6	2,187.3	2,513.1	2,951.1
Less: TL 100 Million Minimum Cash	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less: Total Allocation of Funds	727.0	684.2	2,162.5	1,001.3	1,319.4	771.6	748.9	841.1	879.9	754.8	871.1	849.8
Plus: Principal Repayments	145.6	16.3	11.0	169.0	198.4	244.1	453.8	453.8	453.8	453.8	453.5	393.0
Total Funds for Debt Service (2)	(204.9)	(31.9)	(1,479.0)	35.3	161.8	1,317.2	1,869.4	2,144.9	2,439.0	2,963.2	3,181.8	3,564.5
Debt Service Coverage (2)						2.36	2.35	2.81	3.33	4.22	4.74	6.13

(1) Current Year Basis (non-cumulative).

(2) Cumulative Basis.

AID-DLC/P-985/2 ANNEX 6

EREGLI STAGE I PROJECTIONS

DEFERRALS - EFFECT ON CASH POSITION 1971-1976

(TL Thousands)

(On the Basis of Amortization Schedules before Deferrals-Revaluation for AID-A Considered)

	1971	1972	1973	1974	1975	1976	1977-1987	Gross Amount Deferred
AID-A Loan								
Principal Deferred (Net)	-	84,004	96,604	-	-	-	-	180,608
Additional Principal	-	-	-	(13,884)	(13,884)	(13,884)	-	
Additional Interest	-	(600)	(4,910)	(9,583)	(9,583)	(8,611)	-	
	-	83,404	91,694	(23,467)	(23,467)	(22,495)	-	
AID-Cooley Loan								
Principal Deferred	-	7,437	7,437	7,437	7,437	7,437	-	74,411
Additional Principal	-	-	-	-	-	(7,561)	-	
Interest Deferred	-	8,650	8,032	7,437	6,842	6,265	-	
	-	16,087	15,469	14,874	14,279	6,141	-	
GOT Loan								
Principal Deferred	15,143	30,286	30,286	30,286	30,286	30,286	302,860	594,002
Interest Deferred	13,388	25,767	23,953	22,212	20,470	18,779	-	
Additional Interest	-	-	-	-	-	(17,873)	-	
	28,531	56,053	54,239	52,498	50,756	31,193	302,860	
GOT Development Fund								
Principal Deferred	3,006	6,011	6,011	6,011	6,011	6,011	-	61,651
Additional Principal	-	-	-	-	-	(6,358)	-	
Interest Deferred	3,073	5,913	5,498	5,098	4,698	4,310	-	
Additional Interest	-	-	-	-	-	(2,237)	-	
	6,079	11,924	11,509	11,109	10,709	1,726	-	
GOT Interim & Sinter								
Principal Deferred	-	-	-	3,000	6,000	6,000	-	37,156
Additional Principal	-	-	-	-	-	(5,165)	-	
Interest Deferred	-	4,110	4,750	4,750	4,451	4,095	-	
Additional Interest	-	-	-	-	-	-	-	
	-	4,110	4,750	7,750	10,451	4,930	-	
AID-B Loan								
Principal Deferred	-	23,219	46,438	23,219	-	-	-	92,876
Additional Principal	-	-	-	(6,195)	(12,390)	(6,195)	-	
Additional Interest	-	-	(1,325)	(3,995)	(4,971)	(4,280)	-	
	-	23,219	45,113	13,029	(17,361)	(10,475	-	
TOTAL AID DEFERRALS 1972-76			347.9					
TOTAL GOT 1971-76			389.8					
TOTAL GROSS DEFERRALS			737.7					
TOTAL NET DEFERRALS AFTER ADDITIONAL INTEREST AND PRINCIPAL PAYMENTS DUE TO DEFERRALS			584.3					

ANNEX 7

EREGLI STEEL MILL EXPANSION - STAGE I

ITEMS TO BE FINANCED BY EXIMBANK

1. Semi-Continuous Hot Strip Mill
2. Revamping and Speeding-up the Tandem Mill
3. Addition of 5th Stand to Cold Tandem Rolling Mill
4. Temper Mill
5. Cold Rolled Shear Line
6. Escalation and Spares
7. Ocean Freight and Related Transportation Expenses
8. Engineering Contract

CHECKLIST OF STATUTORY CRITERIA

Eregli Stage I Expansion

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended, incorporating amendments effected by the Foreign Assistance Act of 1971

APP.- Foreign Assistance and Related Agencies Appropriations Act, 1972.

FAA Sec. 102. Assistance wherever practicable consists of U.S. commodities and services furnished consistent with efforts to improve the U.S. balance of payments.	Code 941 countries are eligible pursuant to M.C. 1411.5
FAA Sec. 201(b). Manner in which loan will promote country's economic development, emphasizing long-range plans for developing economic resources and production capacities.	See Sections 4, 5 and 6 of CAP.
FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.	Other free world sources, including private United States sources, will provide similar financing.
FAA Sec. 201(b)(2). Information and conclusion on activity's economic and technical soundness, including the capacity of the recipient country to repay the loan at a reasonable rate of interest.	See Sections 3 and 5 of Capital Assistance Paper.
FAA Sec. 201(b)(3). Information and conclusion on existence of reasonable promise activity will contribute to development of economic resources or increase of productive capacities	See Sections 4 and 5 of CAP.
FAA Sec. 201(b)(4). Information and conclusion on activity's relationship to other development activities, and its contribution to realizable long-range objectives.	See Sections 1, 3 and 4 of the CAP.
FAA Sec. 201(b)(5). Country's self-help measures.	Discussed in full in 1971 Program Assistance Paper.

*Previous loans by A.I.D. to or for relcan to Eregli include DLF Loan No. . dated January 9, 1961, A.I.D. Cooley Loan No. 277-E-047, dated January 21, amendment to 277-E-047, dated January 13, 1965, A.I.D. Loan No. 277-H-078, dated May 15, 1968, and A.I.D. Loan No. 277-H-088 dated Nov. 27, 1968. The analyses prepared prior to authorization of these loans have been considered and, to the extent that they are of continuing relevance, are incorporated herein by reference.

7. <u>FAA Sec. 201(b)(6)</u>. Information and conclusion on possible effects on U.S. economy, with special reference to areas of substantial labor surplus.	No adverse effects to the U.S. economy will result from this loan. See Section 3 of C.A.P. No information can now be developed as to whether any specific labor surplus areas will be benefited.
8. <u>FAA Sec.201(b)(7)</u>. Information and conclusion on the degree to which the country is making progress toward respect for the rule of law, freedom of expression, and of the press, and recognition of the importance of individual freedom, initiative, and private enterprise.	Turkey has made satisfactory progress toward all of these goals
9. <u>FAA Sec.201(b)(8)</u>. Information and conclusion on the degree to which the country is taking steps to improve its climate for private investment.	Turkey has a Foreign Investment Encouragement Law, has approved many foreign investments, and more are being reviewed. See also 1971 Progra Assistance Paper, page 55, Imports Policy and Program.
10. <u>FAA Sec.201(b)(9)</u>. Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.	See Sections 3 and 4 of the CAP.
11. <u>FAA Sec.201(b)</u>. Compliance with requirement that funds not be used to make loans to more than twenty countries in any fiscal year.	This limitation will not be violated.
12. <u>FAA Sec.201(b)</u>. Information and conclusion on reasonable prospects of repayment.	There are good prospects for the repayment of the loan.
13. <u>FAA Sec.201(d)</u>. Information and conclusion on legality (under laws of the country and the U.S.) and reasonableness of lending and relending terms.	The terms are lawful under U.S. laws and appropriate assurances of their legality under Turkish law shall be obtained as a condition precedent to disbursement. The loan terms are reasonable. Relending terms will be approved by A.I.D.
14. <u>FAA Sec.201(e)</u>. Information and conclusion on availability of an application together with sufficient information and assurances to indicate reasonably that funds will be used in an economically and technically sound manner.	An application has been received. Expected soundness of economic and technical usage of funds is covered in Sections 3, 4 and 5 of the CAP.

15. <u>FAA Sec.201(f).</u> If a project, information and conclusion whether it will promote the economic development of the requesting country, taking into account the country's human and material resource requirements and the relationship between the ultimate objectives of the project and the country's overall economic development.	The economic development of Turkey will be promoted. Account has been taken of the impact of the loan on Turkey's overall economic development. See Sections 3 and 4, of the CAP.
16. <u>FAA Sec.201(f).</u> If a project, information and conclusion whether it specifically provides for appropriate participation by private enterprise.	The Borrower is the Government of Turkey. The GOT will reland to a private Turkish company. U.S. private sources will supply equipment, materials and services.
17. <u>FAA Sec.202(a).</u> Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.	The sub-borrower is a private Turkish corporation. Dollars provided under the loan will be used to procure goods and services from the U.S. private sector and Code 941 countries.
18. <u>FAA Sec.207(a).</u> Information that U.S. assistance places appropriate emphasis on encouraging strong economic, political, and social institutions needed for a progressive democratic society.	Appropriate emphasis is being placed on such development. See FY 1971 Program Assistance Paper for a full statement and discussion of relevant background information.
19. <u>FAA Sec.208(b).</u> Information and conclusion on the extent to which the country is creating a favorable climate for foreign and domestic private enterprise and investment.	Turkey is making appropriate progress in this area. See FY 1971 Program Assistance Paper.
20. <u>FAA Sec.208(c).</u> Information and conclusion on the extent to which the country is increasing the role of the people in the developmental process.	Turkey is increasing the role of the people in the developmental process through its democratic institutions and through such mechanisms as village and farmer co-operatives.
21. <u>FAA Sec.208(e).</u> Information and conclusion on the extent to which the country is willing to make contributions of its own on the projects and programs for which assistance is provided.	The amount of contribution of funds from Eregli and the Government of Turkey for this project is considered adequate.

22. FAA Sec.208(g). Information and conclusion (other than above) on the extent to which the country is responding to the economic, political, and social concerns of its people and showing a clear determination to take effective self-help measures.

The Government of Turkey is responding adequately to such concerns, and is taking sufficient self-help measures.

23. FAA Sec.281. Extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the developing countries, through the encouragement of democratic private and local governmental institutions.

This loan will contribute to that objective by making more attractive to private Turkish citizens an opportunity for investment in an enterprise which contributes to the economic development of Turkey.

24. FAA Sec.601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry agriculture, and commerce; (f) strengthen free labor unions.

(a) The loan would encourage the flow of international trade by providing for the export of goods to Turkey from the U.S.; (b) private enterprise, initiative and competition will be encouraged; (c) the loan would have no direct effect on the development and use of cooperatives, credit unions and saving and loan associations; (d) the loan would have no measurable effect on monopolistic practices; (e) the loan will improve the technical efficiency of the Turkish steel industry; (f) the loan would have no effect strengthening free labor union.

25. FAA Sec.601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad, and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

This loan will finance and encourage the export of U.S. goods and services to Turkey and encourage U.S. investment by developing and economy which will atract such investment to Turkey.

26. FAA Sec.601(d). Conclusion and supporting information on compliance with the Congressional policy that engineering and professional services of U.S. firms and their affiliates are to be used in connection with capital projects to the maximum extent consistent with the national interest.

Engineering and professional services for technical assistance to the project will be obtained from private sources in the U.S. See Capital Assistance Paper Pg. 12, Sec.5.3.

27. FAA Sec.602. Information and conclusions whether loan will permit American small business to participate equitably in the furnishing of goods and services financed by it.	Normal Small Business Publication will be required.
28. FAA Sec.604(a). Compliance with restriction of commodity procurement to U.S. except as otherwise determined by the President and subject to statutory reporting requirements.	Code 941 countries are eligible pursuant to M.O. 1411.5
29. FAA. Sec.604(b). Compliance with restriction that no funds be used to procure bulk commodities at prices higher than the market price prevailing in the U.S. at time of purchase	No commodities will be procured in bulk.
30. FAA Sec.604(d). Compliance with requirement that marine insurance on commodities be purchased on competitive basis or, if the participating country discriminates against any marine insurance company authorized to do business in any State of the United States, that insurance be placed in the U.S.	This will be complied with.
*31. FAA Sec.608(a). Information as to the utilization of excess personal property in lieu of procurement of new items.	Excess property utilization is considered inconsistent with the nature and structure of this loan.
32. FAA Sec.611(a)(1). Information and conclusion on availability of engineering, financial, and other plans necessary to carry out the assistance and of a reasonably firm estimate of the cost of the assistance to the United States.	All necessary planning has been accomplished. The cost to the United States is limited to the maximum funds available under the loan.
33. FAA Sec.611(a)(2). Necessary Legislative action required within recipient country and basis for reasonable anticipation such action will be completed in time to permit orderly accomplishment of purposes of loan.	All Government of Turkey legislative action required will be accomplished.
34. FAA Sec.611(c). Compliance with requirement that contracts for construction be let on competitive basis to maximum extent practicable.	This Section will be complied with.

35. FAA Sec.611(e). Compliance with the requirement that for all projects estimated to cost in excess of $1,000,000, the principal officer of AID in the country in which the project is located certify as to the capability of the country (both financial and human resources) effectively maintain and utilize the project taking into account among other things the maintenance and utilization of projects in the country previously financed or assisted by the U.S. (Such certifications are to be approved by the Administrator or appropriate assistant administrator per Delegation of Authority #75 before assistance is authorized.)	Such a certification has been executed.
36. FAA Sec.612(b) and 636(h). Appropriate steps that have been taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.	Eregli will furnish all necessary local currency.
37. FAA Sec.620(a). Compliance with prohibitions against assistance to Cuba and any country (a) which furnishes assistance to Cuba or failed to take appropriate steps by February 14, 1964, to prevent ships or aircraft under its registry from carrying equipment, materials, or supplies from or to Cuba; or (b) which sells, furnishes, or permits any ships under its registry from carrying items of primary strategic significance, or items of economic assistance.	Turkey is not in violation of these sections.
38. FAA Sec.620(b). If assistance to the Government of a country, existence of determination it is not controlled by the international Communist movement.	Turkey is not controlled by the International Communist movement.
39. FAA Sec.620(c). If assistance to the government of a country, existence of indebtedness to a U.S. citizen for goods or services furnished or ordered where such citizen has exhausted available legal remedies or where the debt is not denied or contested by such government or the indebtedness arises under an unconditional guaranty of payment given by such government.	Turkey is not in violation of this section.

40. FAA Sec.620(d). If assistance for any productive enterprise which will compete with U.S. recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan.	Such exports are not contemplated.
41. FAA Sec.620(e)(1). If assistance to the government of a country, extent to which it (including government agencies or subdivisions) has, after January 1, 1962, taken steps to repudiate or nullify contracts or taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking appropriate steps to discharge its obligations.	Turkey is not ineligible under this Section.
42. FAA Sec.620(f). Compliance with prohibitions against assistance to any Communist country.	Turkey is not a Communist country.
43. FAA Sec.620(g). Compliance with prohibition against use of assistance to compensate owners for expropriated or nationalized property.	Loan funds will not be used for such purposes.
44. FAA Sec.620(h). Compliance with regulations and procedures adopted to ensure against use of assistance in a manner which, contrary to the best interests of the U.S., promotes or assists the foreign aid projects or activities of the Communist-bloc countries.	Such compliance is assured.
45. FAA Sec.620(i). Existence of determination that the country is engaging in or preparing for aggressive military efforts.	No such action is contemplated by Turkey.
46. FAA Sec.620(i). Information on representation of the country at any international conference when that representation includes the planning of activities involving insurrection of subversion against the U.S. or countries receiving U.S. assistance.	No such information has been received.
*47. FAA Sec.620(j). Existence of a determination that the country has permitted or failed to prevent destruction of U.S. property by mob action or has failed to take steps to prevent a recurrence and to pay compensation.	Police, gendarmerie and security forces in Turkey have the capability and have demonstrated their readiness to prevent such mob action.

333

48. FAA Sec.620(k). If construction of productive enterprise where aggregate value of assistance to be furnished by U.S. will exceed $100 million, identification of statutory authority.	This prohibition will not be violated.
49. FAA Sec.620(l). Consideration which has been given to denying assistance to the government of a country which after December 31, 1966, has failed to institute the investment guaranty program for the specific risks of inconvertibility and expropriation or confiscation.	Turkey has an investment guaranty program in force.
50. FAA Sec.620(n). Compliance with prohibitions against assistance to countries which traffic or permit trafficking with North Viet-Nam.	Turkey is not ineligible under this section.
51. FAA Sec.620(o). If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters, information on the consideration which has been given to excluding the country from assistance.	No such action has been taken by Turkey.
52. FAA Sec.620(p). Restriction.	Not applicable.
53. FAA Sec.620(q). Existence of default in payment under any Foreign Assistance Act loan to the country.	Turkey is not ineligible under this section.
54. FAA Sec.620(s). Consideration of whether the country is devoting an unnecessary percentage of its budget for military purposes, or using foeign exchange for military equipment, and the amount spent for the purchase of sophisticated weapons systems.	Turkey is not devoting an unnecessary percentage of its budget, or unnecessarily using foreign exchange, for military purpose and equipment. Consideration has been given to the amount spent on sophisticated weapons systems.
55. FAA Sec.620(t). Compliance with prohibition on aid if country has severed diplomatic relations with U.S. unless agreements have been negotiated after resumption of relations.	Not applicable.

56. FAA Sec. 620(u). Status of the country with respect to its dues, assessments, and other obligations to the United Nations.	Turkey is not delinquent in its U.N. obligations.
57. FAA Sec. 636(i). Compliance with prohibition on financing non-U.S.-manufactured motor vehicles (except where special circumstances exist and a waiver is authorized).	This requirement will be met.
58. App Sec. 102. Compliance with requirement that payments in excess of $25,000 for architectural and engineering services on any one project be reported to Congress.	Any such payment will be reported.
59. App Sec. 104. Compliance with bar against funds to pay pensions, etc., for military personnel.	Funds will not be used for such purposes.
60. App Sec. 106. Compliance with requirement for approval of contractors and contract terms for capital projects.	Such compliance will be made.
61. App Sec. 108. Compliance with bar against use of funds to pay assessments, etc., of U.N.	Loan funds will not be used for such purposes.
62. FAA Sec. 209. Desirability of furnishing assistance through multilateral or regional programs.	This project is funded multilaterally. It does not lend by itself to a regional program.
63. FAA Sec. 481. If country has failed to take adequate steps to prevent narcotic drugs from entering the U.S. unlawfully.	Turkey is cooperating fully in eliminating illicit trade in narcotic drugs.
64. FAA Sec. 605(e). Compliance with restriction against procuring with A.I.D. funds agricultural commodities outside the U.S. when the domestic price of such commodity is less than parity.	No agricultural commodities will be procured with funds provided under this loan.
65. FAA Sec. 611(b); App Sec. 101. Compliance with requirement that plans for any water or related land resource construction projects or program shall include computation of benefits and costs.	This is not a water or related land resource construction project or program.

66. FAA Sec. 619. Compliance with restriction on assistance to newly independent countries.	Turkey is not a newly indepen- country.
67. FAA Sec. 620(v). Compliance with restriction on assistance to Greece.	Not applicable
68. FAA Sec. 620(w). Compliance with restriction on assistance to Pakistan.	Not applicable
69. FAA Sec. 655. Compliance with restriction on assistance to Cambodia.	Not applicable
70. FAA Sec. 658. Compliance with restriction on obligation or expenditure of funds while certain funds appropriated for domestic uses are impounded.	This action has been complied with.
71. App Sec. 109. Compliance with requirement with regard to financing construction work performed by third country nationals.	This requirement will be complied with to the extent it is applicable.
72. App Sec. 110. Compliance with requirement with regard to financing iron and stell products for use in Vietnam.	Not applicable
73. App Sec. 112. Compliance with restriction on assistance to India or Pakistan.	Not applicable

534

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

OFFICE OF
THE ADMINISTRATOR

A.I.D. Loan No. 277-H-093
Cap. Asst. Paper No. AID-DLC/P-985
Project No. 277-24-230-596

CAPITAL ASSISTANCE LOAN AUTHORIZATION
Provided from: Development Loan Funds
(Turkey - Government of Turkey, for
Eregli Iron and Steel Works Incorporated
Expansion - Stage I)

Pursuant to the authority vested in the Administrator of the Agency for International Development by the Foreign Assistance Act of 1961, as amended, and delegations of authority issued thereunder, I hereby amend the Capital Assistance Loan authorization for A.I.D. Loan No. 277-H-093, signed July 14, 1971, to read as follows:

"Pursuant to the authority vested in the Administrator of the Agency for International Development (hereinafter called 'A.I.D.') by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title I, the Development Loan Fund, to the Government of Turkey (GOT) not to exceed Forty Million Dollars ($40,000,000), such funds to be made available by a reloan to Eregli Demir ve Celik Fabrikalari Turk Anonim Sirketi ('the Company'), a Turkish Corporation, to assist in financing the foreign exchange costs of commodities and services for the Stage I Expansion of its steel mill at Eregli. This loan is to be subject to the following terms and conditions:

"1. Interest and Terms of Repayment

The interest on this loan shall be two percent (2%) per annum on the disbursed balance of the loan during the grace period referred to below, and three percent (3%) on the disbursed balance of the loan thereafter. The loan shall be repaid within forty (40) years of the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years.

"2. Currency of Repayment

Provision shall be made for repayment of the loan and payment of the interest in United States dollars.

"3. Other Terms and Conditions

(a) Commodities and services financed under the loan shall have their source and origin in countries included in A.I.D. Geographic Code 941.

(b) Conclusion of agreements with the GOT and with the Company, satisfactory to A.I.D., relating to:

(i) a guaranty by the GOT of Loan No. 277-A-020 (DLF No. 169) both "A" and "B" parts;

(ii) modifications of amortization schedules for certain loans made to the Company by A.I.D. and the GOT;

(iii) prices to be charged by the Company for its products; and

(iv) modifications of the Company's depreciation schedules.

(c) As a condition precedent to disbursement, A.I.D. shall require evidence satisfactory to A.I.D. that all financial arrangements for costs not financed by this loan have been concluded.

(d) This loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

"4. Waiver is hereby made of the requirement of Section I, D, 2d of M.O. 1052.1 for joint programming of local currency proceeds which will accrue to the GOT under this loan."

Administrator

Date

Concurrences:

Capital Assistance Committee:

Loan Officer: Michael F. Speers
Engineer: Charles McNaron
Counsel: Stephen Stein

BEST AVAILABLE COPY