

CONFIDENTIAL FILING

GRISSA STEEL PROJECT

INDIA

JANUARY 1982.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
9-11-82							
15-11-82							
<del>12-12-82</del>							
5.8.83							
PREM 19/1060							
CLOSED							





OVERSEAS DEVELOPMENT ADMINISTRATION  
ELAND HOUSE

STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

From the Minister

5 August 1983

Dear Michael,

INDIA : ORISSA STEEL PLANT

You may be interested to know that ODA officials took the opportunity of the recent six-monthly Aid Talks with Indian officials to raise the question of where we stood on the Orissa steel plant. You will recall that, after the Indians rejected the bid from Davy McKee, which was associated with an offer of aid, last year, there have been various exchanges in Delhi.

The record of the Aid Talks states that it was agreed that the question of aid funding should not be considered further until the Government of India had reassessed the project and that meanwhile no provision need be made for it in the expenditure forecasts. We interpret this as being a polite formula for recording that the Indian Government, which is finding it difficult to finance all the public sector expenditure until recently envisaged, has in effect written off for the foreseeable future the projected major new steel plant in Orissa.

The Indians still retain a strong interest in modernising the large steel plant in Durgapur, in the original construction of which British aid was involved. Some £215 million of imported content is likely, although up to £400 million might be involved. At the Aid Talks, our side undertook to consider a financial proposal for Durgapur, which might include either straightforward aid or mixed credit. ODA and DTI officials are now pursuing this. The British Steel Corporation has already been heavily engaged in showing the Indians what our industry could offer.

I am copying this to John Holmes and to Ruth Thomson (DTI).

Yours ever,  
Mike Power.

(M A Power)  
Private Secretary

Michael Scholar Esq  
10 Downing Street  
LONDON SW1

5 AUG 1983





CONFIDENTIAL

India.



N. S. P. N.

Treasury Chambers, Parliament Street, SW1P 3AG

A. J. C. 13/12

Rt Hon Lord Cockfield  
Secretary of State  
Department of Trade  
1 Victoria Street  
London SW1H 0ET

f.a.

13 December 1982

*R. Arthur*  
INDIA : ORISSA STEEL PROJECT

Thank you for your minute of 30 November.

I continue to have doubts about the tactic of making our opening offer our final bid, particularly when I recall how the Indians argued our contribution up during the Davy negotiations. But I understand that Francis Pym and Neil Marten do not dissent from your proposal and you are of course closest to the detailed negotiations. I therefore agree that, if you judge it right, the initial offer should be the full £100 million, subject to the other points set out in paragraph 5 of my earlier minute.

I am copying this minute to the Prime Minister, the other members of EX and to Neil Marten.

*Leon Brittan*  
LEON BRITTAN

CONFIDENTIAL



Indici

Orissa Steel

Jan 82

3 DEC 1982







CONFIDENTIAL

*From the Secretary of State*

Rt Hon Leon Brittan QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
London SW1

*Amrit Chif Secretary, rgs.**Mr 3/12.*

30 November 1982

*Leon Brittan*  
INDIA: ORISSA STEEL PROJECT

I am grateful to colleagues for reacting swiftly to the proposals in my minute of 2 November. The High Commissioner has now submitted the list of preferred UK packages to the Indian Ministry of Steel and their reactions are awaited. No indication has yet been given to the Indians of the amounts of aid which might be associated with our bid.

However, once the Indians do react we will probably get drawn quickly into discussion of the financial support for the project. I am as concerned as you are to provide the minimum aid necessary to secure substantial UK participation, but the tactics of how we deploy what we are prepared to give must, in my view, depend on how the Indians respond to our proposals. I must therefore take issue with your view that our initial offer should necessarily be less than £100m. The level of UK supply in the packages we have proposed to them is broadly similar to the final Davy bid. The Indians have made it clear that they would expect any new financial package to be broadly comparable with that previously available. You will recall that originally £100m of special aid was offered in support of Davy's bid which was later increased to £120m. I believe therefore that if we were to offer the Indians only £80m of aid in support of a UK package of this size there is a very real danger that our offer might be rejected immediately. The High Commissioner shares this view. We would then need to offer the larger sum with nothing gained but damage to our negotiating credibility. This is not a risk we should be prepared to take especially as the Russians, Germans and Japanese are already pressing their claims with the Indians for participation in this project.





*From the Secretary of State*

I of course agree that the amount of aid should be reconsidered if the amount of business offered to the UK is less than the proposed £650m. Indeed, in these circumstances and particularly if some of the more industrially important packages are removed, it could well be appropriate to reduce our initial offer more than proportionately. But these are tactics which can only be judged when we have the Indian response. I would meanwhile be grateful if you could for the reasons I have explained reconsider your view that less than £100m should be offered for the full £650m package.

I am copying this to the Prime Minister, the other members of EX and to Neil Marten.

A handwritten signature in dark ink, appearing to read 'Cockfield', written over a horizontal line.

LORD COCKFIELD



2 DEC 1932





SECRETARY OF STATE FOR TRADE



John Coles Esq.

A short brief on  
Mr Tiwari for today's  
lunch.

15/11/82



LUNCH FOR MR RAJIV GANDHI

BRIEF ON ORISSA STEEL PLANT

A last minute guest is Mr N D Tiwari. Minister for Industry, Mines and Steel, he is directly responsible for implementation of the Orissa Steel project. However, he is not well informed on recent exchanges on potential UK participation.

Line to take

Refer to breakfast meeting with Mrs Gandhi. Very pleased the way opened for renewed British participation in the Orissa Steel plant. Hope for early agreement on starting the project.

Personality

Tiwari, 57, a former planning Minister, took over Industry portfolio in 1981 to which Steel and Mines added in January 1982. Not particularly brilliant; politically flexible; ingratiating manner has found favour in Mrs Gandhi's entourage.



ur 1951



②

Prime Minister

*You have already made  
your views clear.*

*ms*

*W. 9/11*

PRIME MINISTER

INDIA : ORISSA STEEL PLANT

I have seen Arthur Cockfield's minute to you of 2 November and Leon Brittan's of 3 November. I should like to add my support to the proposals put forward for securing this potentially large amount of business for a number of British manufacturers spanning a broad area of industry. The additional work will be very welcome. Indeed for some of the companies concerned, foreign contracts now offer the only sales prospect, given the lack of home orders from BSC. The added value of these hardware exports will be particularly high since there will be relatively little imported content.

2 I support the proposal that we should aim to secure the maximum business and to do this I also accept, like Leon Brittan, that we shall have to offer a realistic financial package. I leave it to others closer to the problem to judge the exact level of our opening bid. I should have thought myself that the Indians, who are very shrewd negotiators, will have a very clear idea, especially in view of the earlier negotiations, how much business they are prepared to place with us and how much aid is appropriate. I can see merit therefore in making a realistic opening offer linked to the total package, making it plain that





it would be scaled down for anything less than the £650m. This would be better than opening too low and finding ourselves forced to quickly raise the bid to something closer to what we are prepared to give.

3 I accept that if we were to get this package there would be problems of ECGD Section 2 cover for future commercial business. I would hope, however, that the limit for India, which has an excellent record and good prospects, could be reviewed if it should threaten to inhibit good commercial prospects.

4 I am copying this to the members of EX and to Neil Marten.

PJ

P J

9 November 1982

Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON  
SW1E 6RB



TRADE = PROMOTIONAL VISITS = APRIL 81

NOV 1982



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File cc: HMT  
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10 DOWNING STREET

*From the Private Secretary*

8 November 1982

INDIA: ORISSA STEEL PROJECT

The Prime Minister has seen Lord Cockfield's minute of 2 November and Mr. Brittan's undated minute commenting on this.

Mrs. Thatcher considers it important that we make every effort to obtain as much work as possible for British industry in connection with this project. She therefore agrees that we should be prepared to offer £100m of aid (subject to normal appraisal) to support the packages totalling £540m. She also agrees with the conditions suggested in Mr. Brittan's minute.

I am copying this letter to the Private Secretaries to the members of EX and to Mr. Neil Marten.

A. J. COLES

John Rhodes, Esq.,  
Department of Trade

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8-11





PRIME MINISTER

Prime Minute  
Content with the conditions  
which the Chief Secretary suggests  
in para. 5?

A. J. C.  $\frac{4}{11}$

Yes and

INDIA: ORISSA STEEL PROJECT

I have seen Arthur Cockfield's minute to you of 2 November reporting progress on this project. I accept that a substantial subsidy from the aid programme will be needed to secure these exports, but I should draw your attention to one or two points of difficulty.

2. The most difficult problems relate to ECGD and the Consensus. If we are successful in achieving the full £650 million of business the ECGD section 2 limit for India will, I understand, be largely used up, with the danger that other contracts on straight commercial terms which are at present under negotiation may be squeezed out. The uncertainties about the size and timing of the steel plant business make it difficult to assess how serious a problem this is, but we must recognise that it exists.

3. A further problem is that the proposal in Arthur Cockfield's minute amounts to a mixed credit with a grant element in the range 20-25%, which under the Consensus rules requires prior notification to our partners in the OECD. This will be embarrassing in view of our general stance against export subsidies in that forum. It will also mean breaking for the first time our firm policy of not initiating mixed credits at below 25% grant element. On balance I think this may be a lesser evil than the alternative of adding up to £12 million to the aid content (for which ODA have no provision) in order to reach a 25% grant element. You will however wish to consider the point.



4. The total subsidy involved, including the RTA money, is incidentally 32%, not the 24% quoted in Arthur's minute. I would not however regard this as excessive in the circumstances.

5. It is a pity that my officials were not consulted about the important financial aspects of this proposal, as the conventions require, so that some of the difficulties could have been ironed out. If it is essential that an offer is made immediately, I think a decision to go ahead should be subject to the following conditions:-

(a) as proposed by Francis Pym and Neil Marten, we should not initially offer the full £100 million of regular aid, since the Indians are bound to want to improve on our opening bid.

(b) it must be understood that if in the course of negotiations it is necessary to go beyond £100 million, any further amounts must be found from within the aid programme, if necessary at the expense of the Aid and Trade Provision.

(c) nothing above the normal ECGD terms, eg by way of capitalisation of interest, should be offered.

(d) the amount of aid on offer should be reconsidered if the amount of UK business turns out to be less than the £650 million now envisaged.

7. I am copying this minute to the members of EX and to Neil Marten.

L.B.

LEON BRITTAN

received 4.11.82



April 8







PRIME MINISTER

INDIA: ORISSA STEEL PROJECT

At your meeting with Mrs Gandhi on 29 September it was agreed that the British Steel Corporation should discuss with the Indian authorities which parts of this project might be supplied by UK industry. Initial discussions took place earlier this month, and we have now been asked to indicate as a matter of urgency, the packages of equipment which could be supplied competitively from the UK.

Attached as an annex is the list of packages which, on the basis of BSC's assessment, present very attractive business and for which UK firms would be highly competitive. This would be worth some £650m at today's prices. The figures are approximate at this stage and, of course, the Indians may not agree to the UK supplying as much as this. But if we are to propose this extent of supply, we must be ready to back it with the necessary finance.

#### AID

When the negotiations with Davy broke down in May, we had offered £120m of special aid and £50m of local cost aid in support of Davy's bid. The Indians have made it clear in subsequent discussions that they would expect any financial package associated with a new British initiative to be broadly comparable to that which applied to the Davy bid. At the present time £20m in each of the three financial years 1983/84 - 1985/86 has been set aside in support of this project.

However if the UK offers all the packages recommended by BSC, the total UK content would be only marginally smaller than the UK content in the Davy bid. Indian expectations of aid will rise accordingly. I do not think we should offer the £120m which was our final offer designed to clinch the business in May. But I have no doubt that if we are not able to present an aid package which recognises that the proposed level of UK content is of the same order of magnitude as before, the Indians will be very likely to turn elsewhere for the business. The Russians, Germans and Japanese are already showing keen interest.

It is important that Prime Minister  
we make every effort to understand that the chief secretary  
to the Minister will be commenting, broadly agreeing.  
2. Agree to provision of extra £40m aid

Yes. subject to view of EX colleagues?

Mr.

A.J.C. 3/11

(1)





*Must not*

I understand that Francis Pym and Neil Marten have suggested that our initial offer should be no more than £80m, but that they would be willing to go to £100m on the understanding that no further aid resources would be made available to this project. My judgement is that the Indians would be likely to reject £80m out of hand as inadequate in relation to such extensive supply from the UK. I propose therefore we should be prepared to offer £100m (subject to normal appraisal) to support the packages totalling £650m. This would require £20m in each of the two years 1986/87 and 1987/88 in addition to the sums already reserved. We should also be ready to provide local cost aid from the RTA provision at the same level as before if the Indians request it.

#### SUBSIDY LEVELS

Since May, interest rates for the export credit which would also be involved have risen from  $7\frac{3}{4}\%$  to 10%, and domestic interest rates have fallen. The subsidy element of the package proposed above would be 24.1% with £100m aid the subsidy value of the final package in support of Davy was 44.4%. There is still some way to go, but this package would be a fair and reasonable offer to try and get as much as we can.

#### CONCLUSIONS

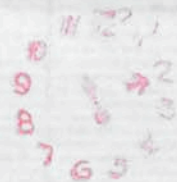
I believe that we now have a very real opportunity to salvage a large proportion of the business lost in May. It is of course possible that the Indians will decide not to accept UK sourcing for all our priority packages, in which case the level of UK content and the required financial support would be lower. However we should approach the Indians with the aim of securing a maximum of business. This can only be achieved if we are prepared to support the business with an appropriate financial package. I should therefore be grateful for agreement that provision should be made for a further £40m of aid in support of this project.

I am copying this to the members of EX and to Neil Marten.

LORD COCKFIELD



3 NOV 1982





UK SOURCE FOR PACKAGES

<u>Package</u>	<u>Value £m</u>	<u>Potential Lead UK supplier(s)</u>	<u>Possible Location of Work</u>	<u>Comments</u>
1. Wire Rod Mill	30	Davy McKee (Sheffield)	Sheffield	Virtually the same as in the Davy bid.
2. Materials Handling	80	GEC Materials Handling Strachan Henshaw Babcock Hoxey NEI Clark Chapman	Teeside Bristol Kent	Valuable work for a range of smaller companies.
3. Coke Ovens	160	Babcock Woodhall Duckham	North of England	To have been supplied by French in Davy bid, but Indians favour UK design.
4. Continuous Casting	30	BSC Distington	Cumberland	
5. Sinter Plant	25	Davy McKee (Stockton) Lurgi UK	Sheffield	Virtually the same as in the Davy bid.
6. Computer Systems	15	BSC(OS), ICL, Ferranti	Various	BSC are world leaders.
7. Power Plant & Electrical Distribution	120	GEC/Babcock	North West England	Indians very impressed with similar UK package in Davy bid.
8. Oxygen Plant	20	BOC	Various	UK highly competitive.
9. Blast Furnace	125	Cleveland Bridge Davy McKee/Fairclough	Teeside	Different specification from before - High UK fabrication content.
10. Workshops, Labs and Training Centre	25	BSC Distington co-ordinating many smaller suppliers.	Cumberland	Includes c£75m of UK machine tools.
11. Transportation (locomotives etc)	20	Thomas Hill	Rotherham	High value - added business.
Total	550			



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PS TO PM 10. DOWNING ST.

FOR PEP FROM BENJAMIN

DAITARI STEEL

1. IN DISCUSSION WITH GILL ON 14 AND 15 OCTOBER, BOTH PRIVATELY AND WITH BSC TEAM LED BY SCHOLEY, THE POSITION ON ORISSA FLOWING FROM THE PRIME MINISTER'S BREAKFAST EMERGED AS FOLLOWS:

(A) BSC HAVING BEEN GIVEN A COPY OF MECON'S FEASIBILITY STUDY ON 15 OCTOBER, A MEETING WILL TAKE PLACE ON 18 OCTOBER BETWEEN BSC, SAIL, MECON AND PEP TO REVIEW INITIAL REACTIONS FOLLOWED BY MORE DETAILED DISCUSSIONS ON TECHNICAL FEATURES AT MECON'S OFFICE IN RANCHI.

(B) ON COMPLETION OF THIS FAMILIARISATION PHASE, BSC WILL IN CONSULTATION WITH HMG PROPOSE THOSE AREAS OF EQUIPMENT SUPPLY WHERE WE REGARD OURSELVES AS CAPABLE AND INTERNATIONALLY COMPETITIVE. THIS WILL BE DONE NOT LATER THAN THE MIDDLE OF NOVEMBER.

(C) IN PARALLEL GOI AND HMG WILL CONSIDER WHAT MIGHT BE AN APPROPRIATE UK FINANCIAL PACKAGE. IT IS ALSO ENVISAGED THAT A SAIL/MECON TEAM SHOULD VISIT UK LATER IN NOVEMBER TO HAVE DISCUSSIONS WITH PARTICULAR UK SUPPLIERS.

(D) GOI ARE BEING APPROACHED BY A NUMBER OF OTHER POTENTIAL SUPPLIERS, NOTABLY THE RUSSIANS, JAPANESE, GERMANS AND FRENCH, WHILST UK IS BEING OFFERED FIRST BITE, THESE OTHER COUNTRIES WILL ALSO BE MAKING DETAILED PROPOSALS, WHICH MIGHT NEED TO BE TAKEN INTO ACCOUNT IN DECIDING THE PARTICULAR SCOPE FOR UK SUPPLY. GILL WOULD PREFER TO TIE THINGS UP WITH US AS QUICKLY AS POSSIBLE, IN ORDER TO ESTABLISH HOW BEST TO HANDLE THESE OTHER SUITORS.

(E) GILL'S AIM IS TO ACHIEVE A SITUATION WHERE THE INDIANS HAVE A COMPREHENSIVE INVENTORY OF SUPPLY FOR THE PLANT, WITH ASSOCIATED FINANCE TO COVER 100% NOT ONLY OF THE OFF-SHORE COSTS BUT ALSO OF RELATED LOCAL COSTS (EG STRUCTURALS), AS QUICKLY AS POSSIBLE IE WITHIN 4-6 MONTHS.

2. OTHER ASPECTS WHICH BECAME CLEAR WERE:

(A) GILL HAS AN OVER-RIDING PRIORITY TO GENERATE, IN ASSOCIATION WITH PACKAGES OF EXTERNAL EQUIPMENT, THE MAXIMUM OF ADDITIONAL EXTERNAL FINANCE SEMICOLON AND THIS WILL OVER-RULE ANY CONSIDERATIONS OF INDIA'S ABILITY TO BUILD PARTS OF THE STEEL COMPLEX FROM INTERNAL RESOURCES.

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/ B)



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(B) MECON ARE FIRMLY IN THE DRIVING SEAT, THROUGH HAVING DONE THE FEASIBILITY STUDY AND THROUGH THEIR ASSOCIATION WITH SAIL, WHO WILL BE PROVIDING THE BULK OF THE MANAGEMENT FOR THE NEW PLANT EVEN IF IT IS ESTABLISHED AS A SEPARATE COMPANY.

(C) GILL WAS AT THIS STAGE VERY RELUCTANT TO BE SPECIFIC ABOUT BSC'S ROLE, INDICATING THAT THERE WILL 'BE SEVERAL LEVELS OF INTER-ACTION' SEMICOLON HE WOULD BE CLEARER ABOUT THIS WHEN THE SCOPE OF THE UK PACKAGE HAD BEEN DEFINED.

3. THE PRESENCE OF THE DEPUTY CHAIRMAN OF BSC, EXPRESSING VERY FIRMLY THE CORPORATION'S COMMITMENT TO ASSIST AS REQUIRED, SET A FAVOURABLE CLIMATE. BSC'S ROLE AS HMG'S GUIDE ON TECHNICAL QUALITY AND COMPETITIVENESS WAS STRESSED IN DISCUSSION, AND WE SHOULD ALSO BE ABLE TO SECURE FOR THEM A FORMAL POSITION AS MONITORING AUTHORITY FOR UK AID FUNDS WHICH SHOULD HELP TO COUNTER DIFFICULTIES STEMMING FROM MECON.

4. AN IMMEDIATE REVIEW OF THE POSITION WILL BE REQUIRED WHEN THE BSC TECHNICAL SURVEY TEAM RETURNS TO LONDON. MEANWHILE, MISS NEVILLE ROLFE WILL BE ACCOMPANYING THEM TO RANCHI. IN VIEW OF THE CLEAR URGENCY ON THE INDIAN SIDE TO PROCEED TO IMPLEMENT THE BREAKFAST AGREEMENT, WE SHOULD AVOID FURTHER DELAY IN FORMALLY CONFIRMING THAT AGREEMENT BY MEANS OF THE HIGH COMMISSIONER'S PROPOSED EXCHANGE OF LETTERS WITH ALEXANDER.

5. ON DURGAPUR MODERNISATION, THE SAIL/MECON STUDY WILL BE PRESENTED TO BSC AND PEP AT THE DISCUSSIONS ON 18 OCTOBER.

WADE-GERY

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ADDITIONAL DIST:  
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10 DOWNING STREET

THE PRIME MINISTER

10 September 1982

Dear Sir John,

Thank you for your letter of 1 September about the Orissa steel project. I know how much valuable work your company has already put into this.

We are certainly keen that the United Kingdom should continue to participate in this project and to this end we have initiated discussions with the Government of India on how the project might now best be taken forward. It is of course for them to decide whether to revert to the situation as it was in May before negotiations with your company broke down or to proceed on a different basis.

It was good of you to write.

Yours sincerely  
Margaret Thatcher

Sir John Buckley





*From the Secretary of State*

Willie Rickett Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
London  
SW1

8 September 1982

*Dear Willie,*

*Type letter pl.*

*mg/i.*

..... I enclose a draft reply for the Prime Minister's signature in response to Sir John Buckley's letter of 1 September about the Indian steel project.

The Prime Minister is aware of the background to this project. In recent weeks the Government of India has indicated that, despite the breakdown in negotiations with Davy for this contract in May, there remains scope for substantial United Kingdom involvement on a new basis. In particular United Kingdom proposals that BSC might lead a United Kingdom offer have found a favourable reaction in India. In addition, the Indian Finance Minister, Mr Mukherjee, indicated that negotiations might be re-opened with Davy for the original full turnkey project. However, at his meeting with the Prime Minister on 1 September, Mr Mukherjee appeared to rule out the possibility of a return to a turnkey approach. This was confirmed by Mrs Gandhi in talks with the High Commissioner on 4 September. At the moment therefore there appears to be little cause for the optimism in Sir John Buckley's letter that the Indians may return after all to a Davy-led project. The Government of India is expected to come to a decision during the course of this month on how to take the project forward.

I am copying this letter and the draft to John Holmes (FCO).

*Yours sincerely*

*John Whitlock*

JOHN WHITLOCK  
Private Secretary





DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

Sir John Buckley  
Chairman  
Davy Corporation Limited  
15 Portland Place  
London  
W1A 4DD

Thank you for your letter of 1 September about the Orissa steel project. I know how much valuable work your company has already put into this.

We are certainly keen that the United Kingdom should continue to participate in this project and to this end we have initiated discussions with the Government of India on how the project might now best be taken forward. It is of course for ~~them~~ ~~Government of India~~ to decide whether to revert to the situation as it was in May before negotiations with your company broke down or to proceed on a different basis.

*It was good of you to write.*

*ASL/g.*

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India, Relations, Pt 2



1 September 1982

I am writing on behalf of the Prime Minister to acknowledge your letter of 1 September. This is receiving attention and a reply will be sent to you as soon as possible.

WFSR

Sir John Buckley



1 September 1982

I attach a letter the Prime Minister has received from Sir John Buckley.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, and if this could reach me by Friday 10 September.

I am sending a copy of this letter and the enclosure to John Holmes (Foreign and Commonwealth Office).

(SGD) WILLIE RICKETT

John Whitlock, Esq.,  
Department of Trade.





Sir John Buckley

**Davy Corporation Ltd**

15 Portland Place  
London W1A 4DD  
England

Tel: 01-637 2821

Telex: 22604

1 September 1982

The Rt. Hon. Margaret Thatcher MP  
10 Downing Street  
LONDON SW1

*Dear Prime Minister.*

I do hope you will not mind my writing to you yet again about the Indian Steel Project but we have learnt that there is a clear possibility that the Project may shortly be restarted, very much on the lines originally proposed, with Davy leading. This would be a most effective way of proceeding as so much work has been done on this complex job, and the detailed experience and knowledge already gained is essential for the successful design, construction and commissioning of the plant.

As always with projects of this magnitude and national importance, strong support will be required from the Governments of both countries. May I therefore say once again how grateful we are to you for the sustained backing you have given throughout the long negotiations.

*Yours Sincerely,  
John Buckley.*



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Prime Minister

Trade

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not  
not

yes

not

FOLLOWING FOR BENJAMIN, PEP

YOUR TELNOS OTTER 50 TO 53

STEEL

1. I CALLED ON FINANCE MINISTER MUKHERJEE THIS AFTERNOON AND ASKED FOR HIS ADVICE ABOUT HOW WE SHOULD NOW PROCEED ON THE STEEL FRONT. WITHOUT ANY FURTHER PROMPTING, HE REPLIED IN THE FOLLOWING REMARKABLE TERMS:

(A) HAVING BEEN PERSONALLY INVOLVED IN THE DAVY/ORISSA PLAN SINCE HIS TIME AS STEEL MINISTER, AND HAVING PARTICULARLY WELCOMED 'MRS THATCHER'S CRUCIAL LETTER TO MRS GANDHI'', FROM WHICH SO MUCH HAD FLOWED, HE HAD MUCH REGRETTED THE SUDDEN COLLAPSE IN MID-MAY OF THE NEGOTIATIONS BETWEEN DAVY AND THE INDIAN STEEL AUTHORITIES. THE LATTER, IN HIS VIEW, HAD NOT BEHAVED WELL: THEY HAD CHANGED BOTH THE SITE AND IMPORTANT ELEMENTS OF THE SPECIFICATION AT THE LAST MOMENT, WITHOUT PROPERLY ALLOWING FOR THE EFFECT THAT SUCH CHANGES WERE BOUND TO HAVE BOTH ON THE PRICE AND ON THE TIME-FRAME THAT DAVY COULD OFFER.

(B) THE CURRENTLY VALID INDIAN CABINET DECISION, TAKEN IN THE LIGHT OF THE MAY COLLAPSE, WAS THAT THE ORISSA STEEL CONTRACT SHOULD NOT PROCEED ON A TURN-KEY AND NEGOTIATED BASIS BUT SHOULD BE PUT OUT TO INTERNATIONAL TENDER IN DISCRETE PACKETS. THIS SOUNDED GOOD BUT WOULD NOT MEET INDIA'S NEED FOR SUBSTANTIAL EXTRA STEEL CAPACITY ON THE SCALE AND WITHIN THE TIME SCALE ENVISAGED IN THE PROPOSED DEAL WITH DAVY. NOR WOULD IT COPE WITH INDIA'S NEED TO GET AS NEAR AS POSSIBLE TO 100% EXTERNAL FINANCING (THOUGH HE REALISED THERE WOULD PROBABLY HAVE TO BE SOME CONTRIBUTION FROM INDIAN FUNDS TO LOCAL INFRASTRUCTURE COSTS).

(C) HE THEREFORE INTENDED TO SEEK A NEW CABINET DECISION, IF POSSIBLE IN MID-SEPTEMBER, IE IN THE PERIOD BETWEEN HIS OWN RETURN FROM LONDON/TORONTO/WASHINGTON (ABOUT 12 SEPTEMBER) AND MRS GANDHI'S DEPARTURE FOR MOSCOW (ABOUT 20 SEPTEMBER). THIS NEW DECISION WOULD INVOLVE GOING BACK TO THE IDEA OF A TURN-KEY PROJECT WITH DAVY IN THE LEAD.

(D) THE NEW CABINET DECISION WOULD BE BASED ON TWO INPUTS. FIRST THE FEASIBILITY STUDY WHICH THE INDIAN STEEL AUTHORITIES AND HIS OWN MINISTRY EXPECTED TO COMPLETE WITHIN ABOUT A WEEK: THE DPR WOULD TAKE LONGER, BUT NO MATTER. SECOND, A LETTER FROM ME, WHICH COULD SUITABLY BE ADDRESSED TO ALEXANDER IN MRS GANDHI'S OFFICE AND SHOULD IF POSSIBLE BE DELIVERED ABOUT 6 SEPTEMBER, IE LONG ENOUGH BEFORE HIS OWN RETURN FOR IT TO BE PROCESSED FOR CABINET DECISION BUT NOT LONG ENOUGH TO GIVE THE RATS TIME TO GET AT IT. /E



(E) IT WOULD BE USEFUL IF I COULD DISCUSS THE PRECISE TERMS OF MY LETTER IN DRAFT WITH ALEXANDER BEFORE I DELIVERED IT. BUT BROADLY IT SHOULD RENEW THE BRITISH GOVERNMENT'S ORIGINAL OFFER AS SET OUT IN MRS THATCHER'S LETTER (SIC). IT SHOULD MAKE CLEAR THAT THE BRITISH GOVERNMENT WERE KEEN TO SEE THE DEAL GO FORWARD ON A TURN-KEY BASIS WITH DAVY IN THE LEAD; AND THAT THEY EXPECTED IT TO BE POSSIBLE TO PUT FORWARD A FINANCIAL PACKAGE COMPARABLE TO WHAT HAD BEEN ENVISAGED IN MAY. THIS PACKAGE SHOULD OF COURSE INCLUDE THE THREE STANDARD ELEMENTS OF EXPORT CREDIT, AID AND COMMERCIAL FINANCING; AND IT SHOULD COME AS CLOSE AS POSSIBLE TO COVERING 100% OF THE COST OF THE PROJECT. MY LETTER SHOULD VOTE THAT THE INDIAN GOVERNMENT'S PRESENT REQUIREMENTS HAD CHANGED IN TWO RESPECTS, VIZ THE SITE (IE AT DAITARI RATHER THAN PARADIP) AND CERTAIN ASPECTS OF THE SPECIFICATION (HE WAS NOT SPECIFIC ABOUT THE LATTER AND DID NOT MAKE CLEAR WHETHER HE MEANT THE VARIATIONS INTRODUCED BY THE INDIANS AT THE LAST MINUTE IN THE APRIL/MAY NEGOTIATIONS OR THE FURTHER CHANGES MENTIONED BY GILL TO YOU EARLIER THIS MONTH OR BOTH.) THE IMPLICATIONS OF THESE CHANGES SHOULD BE NEGOTIATED URGENTLY BETWEEN THE PARTIES: IE BETWEEN THE INDIAN STEEL AUTHORITIES ON ONE SIDE AND DAVY ON THE OTHER.

2. I ASKED MUKHERJEE WHY HIS PRESENT ADVICE WAS SO RADICALLY DIFFERENT FROM THE STEER WHICH YOU AND I HAD HAD FROM GILL AND OTHERS AT THE OFFICIAL LEVEL EARLIER THIS MONTH. HE REPLIED WITH A SMILE THAT GILL AND CO, AS GOOD CIVIL SERVANTS, HAD BEEN BASING THEMSELVES ON THE EXISTING INDIAN CABINET DECISION AND HAD BEEN, WITHIN THAT LIMITATION, WORKING FOR AS BRITISH AN ARRANGEMENT AS SEEMED FEASIBLE. HE HIMSELF, AS A POLITICIAN, WAS SUGGESTING THE BASIS FOR A NEW APPROACH FLOWING FROM A NEW CABINET DECISION.

3. BEFORE THIS MEETING TOOK PLACE I HAD ALREADY, IN THE LIGHT OF YOUR TELEGRAM NUMBER OTTER 52, ARRANGED TO SEE ALEXANDER AT 11.30 HRS BST TOMORROW. IN ORDER NOT TO LOSE MOMENTUM AT WHAT IS CLEARLY A CRUCIAL STAGE, I HAD BETTER STICK TO THIS. MY INTENTION IS TO REPORT WHAT HAS HAPPENED TO ALEXANDER WITH SOME FRANKNESS AND TO SHOW HIM TWO DRAFTS:

(I) THE DRAFT IN YOUR TELNO OTTER 51 (IE THE GILL PLAN):

(II) THE DRAFT IN MIFT (IE THE MUKHERJEE PLAN).

I SHALL EXPLAIN THAT UNDER THE INFLUENCE OF GILL AND OTHERS AT THE OFFICIAL LEVEL WE HAD UNTIL TODAY BEEN THINKING IN TERMS OF (I): BUT THAT IN THE LIGHT OF MUKHERJEE'S ADVICE WE WERE NOW, SUBJECT TO ALEXANDER'S VIEWS, ASSUMING THAT (II) WAS WHAT THE INDIAN GOVERNMENT WOULD PREFER. IF ALEXANDER AGREES, I SHALL ASK HIM TO STUDY (II) URGENTLY AND IN DETAIL AND TO LET ME KNOW IF HE WISHED TO SUGGEST ANY AMENDMENTS TO IT. I SHALL MAKE CLEAR THAT IN ITS PRESENT FORM IT IS NO MORE THAN A COCKSHY BASED ON MY TALK WITH MUKHERJEE AND THAT WE WOULD BE ENTIRELY OPEN TO ALTERNATIVE DRAFTING SUGGESTIONS.



SECRET

4. I SHOULD BE GRATEFUL IF YOU COULD LET ME KNOW BY 1100 BST WHETHER YOU ARE CONTENT WITH THIS PROCEDURE: WHETHER YOU HAVE ANY COMMENTS ON THE DRAFT IN MIFT: AND WHETHER I MAY INDICATE TO ALEXANDER THAT I HAVE GENERAL AUTHORITY FROM LONDON TO WRITE ON SOME SUCH LINES IF HE AGREES THAT THIS IS WHAT IS NOW WANTED (I COULD IF NECESSARY MAKE CLEAR THAT I DO NOT YET HAVE SUCH AUTHORITY, ALTHOUGH I EXPECT TO GET IT: BUT THIS WOULD CLEARLY DETRACT FROM THE FORCE OF MY PRESENTATION).

5. SOMEWHAT CONFUSINGLY I WAS GIVEN A RATHER DIFFERENT STEER BY RAJIV GANDHI WHO LUNCED WITH ME SHORTLY BEFORE I SAW MUKHERJEE. RAJIV SAID THAT VZ HAD BEEN DISCUSSING OUR STEEL AFFAIRS WITH MUKHERJEE AND HAD ADVISED HIM TO CONCLUDE A DEAL WITH BRITAIN AS QUICKLY AS POSSIBLE. IN RAJIV'S VIEW, SUCH A DEAL WOULD NEED TO BE BASED ON BRITAIN PROVIDING VIRTUALLY EVERYTHING ENVISAGED IN THE ABORTIVE DAVY DEAL: BUT INSTEAD OF BEING PRESENTED HERE AS A SINGLE TURN-KEY PACKAGE IT WOULD HAVE TO BE PRESENTED AS ABOUT 10 SEPARATE PACKETS. HE ACCEPTED THAT, FOR OUR OWN REASONS CONNECTED WITH FINANCING, WE MIGHT NEED TO DEVISE SOME WAY OF STRINGING THESE SEPARATE PACKETS TOGETHER INTO SOME KLED OF WHOLE. RAJIV ADDED THAT THERE WOULD BE NO OBJECTION TO DAVY PLAYING A PROMINENT PART AS THE BRITISH SUPPLIER WITHIN MANY OF THESE PACKETS. BUT IN ANSWER TO A SPECIFIC QUESTION FROM ME HE COMMENTED THAT FOR PRESENTATIONAL PURPOSES HERE IT MIGHT WELL BE USEFUL IF THE LEAD ROLE ON OUR SIDE COULD BE UNDERTAKEN BY SOME OTHER PARTY, SUCH AS THE BRITISH STEEL CORPORATION. RAJIV CONCLUDED BY ADVISING ME TO SEEK MORE SPECIFIC ADVICE FROM MUKHERJEE AND TO BE GUIDED BY WHAT HE SAID. HE WOULD TRY TO TELEPHONE MUKHERJEE HIMSELF IN THE COURSE OF THE AFTERNOON TO INDICATE THE LINES WHICH HE HAD SPOKEN TO ME.

6. RAJIV'S MANNER WAS TENTATIVE AND HE GAVE THE IMPRESSION OF THINKING ALOUD. MUKHERJEE, BY CONTRACT, WAS CRISP, BRIEF AND TO THE POINT: AND HE LEFT NO DOUBT WHATEVER ABOUT PRECISELY WHAT HE WANTED. IT IS A GREAT NUISANCE THAT, AS THINGS HAVE TURNED OUT, I DID NOT SEE THEM THE OTHER WAY ROUND. BUT IN THE CIRCUMSTANCES I AM SURE THAT IT IS MUKHERJEE WE SHOULD BE GUIDED BY. RAJIV HAS BEEN INCOMMUNICADO SINCE I EMERGED FROM MUKHERJEE: BUT I HOPE TO SPEAK TO HIM LATER THIS EVENING TO TELL HIM WHAT HAS HAPPENED AND (MF I AM NOT TOO LATE) TO STEER HIM AWAY FROM LOBBYING MUKHERJEE IN FAVOUR OF THE BSC IDEA.

3  
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/Y. I AM NOT



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7. I AM NOT CLEAR ABOUT WHAT MUKHERJEE MEANT BY  
"MRS THATCHER'S LETTER": CLEARLY SOMETHING MORE SUBSTANTIAL THAN  
THE MESSAGE IN FCO TELNO 649 OF 25 SEPTEMBER 1981. THE ONLY  
CANDIDATE WE HAVE SO FAR BEEN ABLE TO FIND ON OUR FILES HERE IS MY  
PREDECESSOR'S LETTER TO MUKHERJEE OF 24 APRIL 1981. CAN YOU  
IDENTIFY ANY ALTERNATIVE CANDIDATE?

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MR BENJAMIN  
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*Trade*



BRITISH HIGH COMMISSION  
NEW DELHI, INDIA

13 August 1982

Mr C Benjamin  
PEP 2  
Department of Trade  
1 Victoria Street  
LONDON SW1H 0ET

*H*  
*16/8*

*Dear Mr Benjamin*

ORISSA STEEL PLANT

1. I gather you would welcome a considered view from here on the progress achieved during your visit, in amplification of the two reporting telegrams which you and Roger Beetham sent.
2. I share your assessment that it was a useful week and that there are definite prospects for substantial UK involvement in the development on Daitari. I have not been here long enough to be more than cautious in my judgement, and of course I have not yet had a chance to discuss the prospects with anyone at Ministerial level.
3. It seems to me that there are three layers involved. The top layer is political: meaning both the existence of a political decision at the highest level to proceed with the project, and a clear political bias in favour of involving the UK in a substantial way with it. The bottom layer is the Ministry of Steel, which has been entrusted with responsibility for executing the project, wishes it to go ahead but is having problems in finding the resources to do so and getting the necessary clearances, and therefore has its own reasons for encouraging our involvement in a way which will help alleviate any financial difficulties.
4. In the middle come the people who will actually have to decide on the scheme's priority and fund it accordingly - the Planning Commission, and, more crucially, the DEA. Not only are some of them sceptical about India's need for a further steel plant at this juncture; they are also conscious of the difficulty of finding new finance to support it when other schemes in the 6th plan are already under pressure.

/5.

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13 August 1982

5. I am under no illusions about the real difficulties of convincing those in the middle layer. But I believe that, thanks to your visit and your efforts, we can be encouraged to continue to devote significant efforts to assisting the other two layers to move matters forward towards significant British involvement, since at those levels, at least, Indian and British interest coincide. The ready acceptance of your idea to produce an aide memoire to emphasise the Government to Government role will I think help us to keep up the pressure.

Yours sincerely  
R. Kennedy

P.P. R L Wade-Gery

cc: Mr M Burton, SAD, FCO  
Mr J Coles, No 10  
Mr A J Hurrell, ODA



Trade  
Apr 89  
Trade Commission  
Units onscreen



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10 DOWNING STREET

From the Private Secretary

23 July, 1982.

Orissa Steel Plant

Thank you for your letter of 16 July, the contents of which the Prime Minister has noted without comment.

A. J. COLES

John Rhodes, Esq.,  
Department of Trade.

A



Prime Minister

To note.

A. J. C. 19.7

From the Secretary of State

A J Coles Esq  
10 Downing Street  
London SW1

16 July 1982

Dear John,

## ORISSA STEEL PLANT

We noticed that the Prime Minister referred to the aid that had been made available for this project in her summing up of the discussion at OD(FAF)(82)2nd on 6 July. This acted as a reminder to bring you up to date on recent developments.

The Minutes of that meeting recorded the Prime Minister as stating that the Orissa steel project had been lost to the Germans. In fact although the Indians finally broke off negotiations with Davy during May, the contract has not been awarded elsewhere and the Indians have indicated that they do not intend to reopen discussions with the rival consortium led by Demag of West Germany. The Indians no longer intend to let the contract on a turnkey basis but rather to take on the on-shore work themselves and to purchase the equipment from foreign suppliers.

In his last rounds of discussions with Indian Ministers and officials before he left Delhi, Sir John Thomson found a considerable willingness to envisage substantial UK participation on a new basis in the Orissa project, and possibly other Indian steel projects. He was confident that this reflected Mrs Gandhi's personal wish that the UK should be involved. Following his advice, we have just written to the Indian Department of Steel and suggested government to government discussion on how the UK might participate in the Indians' current plans for the project.

If these discussions get off the ground the question of aid will undoubtedly be raised. While we have made it clear that the previous offer is no longer on the table, if the Indian Government were to propose to negotiate substantial UK participation in a revised Orissa project, they would undoubtedly expect financial terms along similar lines to be available. It is of course probable that the UK content would be less than the original package, and there may be some delay in the project going ahead. In recognition of this, some of the aid set aside has already





*From the Secretary of State*

been reallocated. But as long as there seems a good prospect of securing major orders for the UK for the project we consider we should keep open the possibility of offering a substantial part of the original aid package.

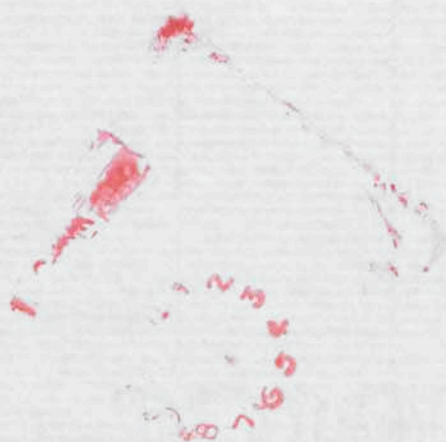
I am copying this to the Private Secretaries to Mr Hurd, Mr Marten, Mr Nott, Mr Brittan and Mr Baker.

*Yours sincerely*

A handwritten signature in dark ink, appearing to be 'J. Rhodes'.

JOHN RHODES  
Private Secretary







MR. COLINS

Orissa Steel Plant

*Prime Minister*  
I have told Lord Cockfield's office that I am not prepared to deal with this in this way. They must send a private secretary letter with advice for the

*Prime Minister.*

*29. A.S.C. 6*

I was telephoned yesterday by Chris Benjamin of Trade (Federal 2159) about Orissa. He told me that the Indian Cabinet is reviewing the position on Orissa early this week and with that in mind Trade had sent (copied to us) a draft possible message from the Prime Minister to Mrs. Gandhi to Sir John Thompson in Delhi asking if it would help our case if the message was sent. The text of the message (Code Creda 288) is as follows:

"I was naturally very disappointed that the negotiations on the Orissa steel plant did not reach a successful conclusion in May. I would like to assure you personally that the United Kingdom remains very interested in participating in this major project which would be of great importance to both our countries.

I have not raised this earlier since I can well understand that you intended to reconsider how to proceed with the project but I understand that your Government is approaching a decision. We are very ready to work with you in any way you wish but it would be a great pity to waste the immense amount of work done on both sides and the measure of agreement on details. With this as a starting point negotiations could proceed rapidly. The United Kingdom remains ready to prepare an attractive financial package and the earlier a decision to proceed the greater will be the scope for this.

I would very much welcome our going forward on this basis."

Sir John Thompson replied as in the attached telegram. What Chris Benjamin was seeking was the authority to meet Sir John's request as at the last line of his telegram. I am not sure whether you have dealt with this at all but perhaps you could get in touch with Chris Benjamin to explain the position.

29 June 1982

*TF*



PS TO PM 10. DOWNING ST.

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DESKBY 251500Z JUN

FROM DELHI 251150Z JUN

TO IMMEDIATE DOT

TELEGRAM NUMBER CRED A 307 OF 25 JUNE 1982

INFO IMMEDIATE FCO, ODA, NUMBER TEN

FOLLOWING FOR BENJAMIN, PEP

YOUR CRED A 287: STEEL PLANTS

1. YOUR PARA ONE NOTED.

2. I HAVE ALREADY STRESSED THE PRIME MINISTER'S INTEREST AND SAID EVERYTHING IN YOUR TELNO CRED A 288. A MESSAGE WHICH GOES NO FURTHER THAN THAT MIGHT BE THOUGHT AN ANTI-CLIMAX: AND IT REFERS TO ONLY ONE STEEL PLANT. MOREOVER, WE MAY NEED A MORE SUBSTANTIVE MESSAGE LATER: THE CABINET DECISION WILL NOT BE THE END OF THE MATTER. MY ADVICE REMAINS AS IN PARA 4 OF MY TELNO CRED A 299. HOWEVER, IF I SHOULD CHANGE MY MIND DO I HAVE AUTHORITY TO DELIVER THE MESSAGE AS IT STANDS AND TO PROMISE A SIGNED ORIGINAL?

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TO PRIORITY DOT  
TELEGRAM NUMBER CREDA 299 OF 22 JUNE  
INFO PRIORITY FCO, ODA, NUMBER TEN

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FOLLOWING FOR BENJAMIN, PEP

MY CREDA 291: STEEL PLANTS

1. I HAD SEPARATE MEETINGS TODAY WITH THE SECRETARY STEEL (GILL) AND THE MINISTER OF FINANCE (MUKHERJEE). THE UPSHOT IS AS FOLLOWS:

(A) TWO PAPERS ARE READY FOR THE CABINET ON THE DAITARI AND VIJAYANAGAR STEEL PLANTS RESPECTIVELY AND ARE LIKELY TO BE TAKEN ON 29 OR 30 JUNE.

(B) THE FINANCE MINISTER WILL HOLD A PRIOR MEETING WITH THE STEEL AND PLANNING MINISTERS TO PREPARE THE WAY. (MY IMPRESSION IS THAT THE FINANCE MINISTER HAS ALREADY SPOKEN WITH THE PRIME MINISTER AND WILL NOT ENCOUNTER SERIOUS DIFFICULTIES.)

(C) THE PAPER ON THE ORISSA STEEL PLANT PUTS OPTIONS BEFORE MINISTERS, PRESUMABLY INCLUDING INTERNATIONAL TENDERING. THE FINANCE MINISTER HOWEVER WILL ARGUE FOR THE OPTION WHICH PROPOSES A NEGOTIATION WITH THE UK ON THE BASIS OF MAKING USE OF AS MUCH OF THE PREVIOUS NEGOTIATIONS AS POSSIBLE.

(D) IF AND WHEN HE IS SUCCESSFUL THE INDIANS WILL WELCOME A SUGGESTION FROM HMG TO SEND A COMPOSITE TEAM INCLUDING TECHNICAL-FINANCIAL/LEGAL EXPERTS TO VISIT LONDON IN JULY WITH THE PRIMARY OBJECT OF ESTABLISHING WHICH PARTS OF THE PREVIOUS NEGOTIATION CAN BE ASSUMED TO REQUIRE NO FURTHER DETAILED NEGOTIATION. THE FINANCE MINISTER THOUGHT THAT A CONSIDERABLE NUMBER OF PACKAGES WOULD BE FOUND TO HAVE BEEN SUBSTANTIALLY AGREED. THE REMAINING PACKAGES WOULD BE THE SUBJECT OF DETAILED NEGOTIATIONS IN THE COMING MONTHS. THE BRITISH WOULD ALSO BE ASKED TO PROVIDE CONSULTANCY SERVICES AND KNOWHOW GOING BEYOND WHAT MECON COULD MANAGE.

(E) AS REGARDS PRICE, THE FINANCE MINISTER HOPED THAT THE BRITISH QUOTATIONS WOULD BE AT "PAR". HE WOULD FACE POLITICAL DIFFICULTIES IN JUSTIFYING A DEAL WITH THE BRITISH AFTER THE FAILURE OF THE PREVIOUS NEGOTIATIONS UNLESS HE COULD ARGUE THAT THE PRICES WERE IN LINE WITH INTERNATIONAL TENDERING AND IN ACCORDANCE WITH THE INDIAN EXPERIENCE OF PURCHASING EQUIPMENT FOR OTHER STEEL PLANTS, NOTABLY VISHAKHAPATNAM. THE FIXED PRICE CONCEPT HAD SCUPPERED THE PREVIOUS DEAL. IN PUTTING FORWARD PRICES FOR THE NEW DEAL WE SHOULD BUILD IN FLEXIBILITY IN THE FORM OF ESCALATION CLAUSES, ETC.

(F) THE FINANCE MINISTER LEFT ME WITH THE IMPRESSION THAT HE WAS AIMING FOR THE SAME PLANT AS FORMERLY, BUT WITH A MORE FLEXIBLE PRICE STRUCTURE, NO BINDING REQUIREMENT FOR CONSTRUCTION IN 45 MONTHS AND INDIAN MANAGEMENT, INCLUDING PROVISION OF THE ONSHORE FACILITIES.

(G) FINANCING WOULD BE ON THE LINES PREVIOUSLY DISCUSSED. IN MAKING THEIR LOAN TO INDIA THE IMF HAD EXPLICITLY TAKEN INTO ACCOUNT THE BORROWING WHICH WOULD BE REQUIRED FOR THE ORISSA STEEL PLANT. NEITHER GILL NOR MUKHERJEE MADE ANY EXPLICIT REFERENCE TO AID BUT THIS WILL PRESUMABLY BE AN IMPORTANT POINT IN THE NEGOTIATIONS.

(H) THE FINANCE MINISTER SAID THAT THE VIJAYANAGAR PLANT WOULD ALSO BE FINANCED THROUGH EUROLOANS (HIS PERMANENT SECRETARY, WHO IS ABOUT TO BE POSTED AS INDIAN REPRESENTATIVE TO THE WORLD BANK, HAS TOLD ME HE DOES NOT LIKE THIS IDEA). THE FINANCE MINISTER EXPECTS THE VIJAYANAGAR PROJECT TO COME BEHIND THE ORISSA ONE BECAUSE HE WILL FIRST HAVE TO GET AUTHORITY FROM THE CABINET TO SPEND THE MONEY WHEREAS THIS ALREADY EXISTS FOR THE ORISSA ONE, AND THEN WILL HAVE TO CLEAR IT WITH THE IMF. THE INVESTMENT WILL BE SMALLER THAN FOR THE ORISSA PLANT AND THE TECHNICAL ROUTE WILL BE DIFFERENT. FOR VIJAYANAGAR THE INTENTION IS TO HAVE DIRECT REDUCTION BY THE ELECTRIC ARC PROCESS.

(I) HOWEVER, THE NEGOTIATING PROCEDURE COULD BE THE SAME FOR BOTH PLANTS. WHILE STATING THIS THE FINANCE MINISTER WAS UNWILLING TO COMMIT HIMSELF TO NEGOTIATING SOLELY WITH THE UK. GILL ALSO AVOIDED SUCH A COMMITMENT BUT SPOKE FAVOURABLY OF DISCUSSIONS HE HAD HAD

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WITH BABCOCKS. HE LIKED THEIR REPRESENTATIVES AND THE FLEXIBLE APPROACH THEY HAD ADOPTED. THEY HAD SHOWN THEMSELVES WILLING TO BE CONSULTANTS, ENGINEER CONSTRUCTORS OR SOMETHING MORE. HE BELIEVED THEY HAD ACCESS TO THE RIGHT TECHNOLOGY. ALL THIS SOUNDS HOPEFUL FOR BRITAIN, BUT THERE WAS NO COMMITMENT.

(J) BOTH GILL AND MUKHERJEE SAID THEY STRONGLY AGREED WITH MY VIEW THAT NEITHER THE BRITISH NOR THE INDIAN SIDE SHOULD COME FORWARD WITH CUT AND DRIED PROPOSALS. THE INDIANS SHOULD SAY WHAT THEY HAVE IN MIND AND THE BRITISH SHOULD RESPOND AS FAVOURABLY AS THEY CAN. THE OBJECT WOULD BE TO RETAIN FLEXIBILITY ON BOTH SIDES WHILE WORKING OUT A NEGOTIATED AGREEMENT. THUS THERE WOULD BE NO PROPOSALS TO BE ACCEPTED OR REJECTED UNTIL IT WAS KNOWN THAT AGREEMENT HAD EFFECTIVELY BEEN REACHED.

(K) BOTH OF THEM WANTED HMG TO TAKE A LEADING PART IN THE NEGOTIATIONS. THEY LIKED THE IDEA OF PEP COORDINATING AND LEADING THE UK SIDE.

(L) GILL SAID THAT HE WOULD LIKE TO HAVE ONE MORE MEETING WITH ME BEFORE I LEFT. THIS INDICATES A MEETING ON 28 OR 29 JUNE.

2. THE FINANCE MINISTER SPOKE WARMLY ABOUT THE BRITISH PERFORMANCE AT THE AID INDIA CONSORTIUM. HIS PERMANENT SECRETARY REPORTED THAT IT HAD HAD A SIGNIFICANT EFFECT ON SEVERAL OTHER DELEGATIONS. OUR ARGUMENTS IN FAVOUR OF INDIA IN VARIOUS INTERNATIONAL FINANCIAL FORA, ESPECIALLY OVER IDA 6 HAD BEEN NOTED AND APPRECIATED. HE EXPRESSED HIS THANKS TO HMG.

3. AS A RESULT OF THESE CONVERSATIONS I AM REASONABLY SATISFIED THAT WE SHALL HAVE A SECOND OPPORTUNITY TO GET THE ORISSA PLANT AND MAY ALSO GET THE SECOND STEEL PLANT AT VIJAYANAGAR, OR AT ANY RATE THE LION'S SHARE OF THE EQUIPMENT FOR BOTH. BUT WE MUST NOT COUNT OUR CHICKENS BEFORE THEY ARE HATCHED. THERE IS FIRST THE MEETING OF THE INDIAN CABINET NEXT WEEK AND THEN SOME VERY DELICATE NEGOTIATIONS WHICH WILL ALTERNATE BETWEEN LONDON AND DELHI BUT WHICH SHOULD PREFERABLY BEGIN IN LONDON. IT WILL BE IMPORTANT TO MOVE AS QUICKLY AS WE CAN AND I BELIEVE THE FINANCE MINISTER AND THE STEEL MINISTER WILL BE WITH US ON THIS. I HINTED TO THE FORMER THAT THE POLITICAL EFFECT OF THE VIJAYANAGAR PLANT ON THE FORTHCOMING KARNATAKA ELECTIONS MIGHT BE LOST IF IT COULD NOT BE SHOWN THAT ACTION WAS TAKING PLACE ON THE ORISSA PLANT. OTHERWISE THE OPPOSITION MIGHT ARGUE THAT IT WAS ALL AN ELECTORAL GIMMICK AND THAT NOTHING IN PRACTICE WOULD HAPPEN AFTER THE ELECTIONS. HE INDICATED THAT HE APPRECIATED THE POINT. BUT MORE IMPORTANT THAN SPEED WILL BE THE ADROITNESS WITH WHICH WE MANAGE THE NEGOTIATIONS. IT WOULD BE FOOLISH TO IGNORE THE CLEAR INDIAN PREFERENCE FOR HMG TO COORDINATE AND MANAGE THE UK SIDE. THIS POINTS TO PEP TAKING THE LEAD. GILL ASKED ME TO SAY THAT "UNORTHODOX" WAYS OF PROCEEDING WERE NOT WELCOME TO THE MINISTRY OF STEEL AND WOULD TEND TO CAUSE DELAYS AND MISUNDERSTANDINGS. IF THE INDIAN CABINET DECISION IS AS FORESHADOWED BY THE MINISTER OF FINANCE I RECOMMEND THAT WE SHOULD BE AS FLEXIBLE AS POSSIBLE IN FALLING IN WITH THEIR PREFERRED WAYS OF WORKING AND THAT WE SHOULD BE READY TO RECEIVE AN INDIAN TEAM IN LONDON IN JULY.

4. I HAVE BEEN CONSIDERING WHETHER A PERSONAL MESSAGE FROM THE PRIME MINISTER TO MRS GANDHI WOULD BE USEFUL BUT I CONTINUE TO ADVISE THAT WE SHOULD HOLD THIS IN RESERVE. I DO NOT SEE AN EARLY OCCASION FOR ONE AT LEAST SO LONG AS THINGS ARE GOING OUR WAY.

FCO PSE PASS TO NUMBER TEN.

THOMSON

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FROM DELHI 180430Z JUN

TO IMMEDIATE DOT

TELEGRAM NUMBER CREDA 291 OF 17 JUNE  
INFO IMMEDIATE FCO, ODA, NUMBER TEN

FOLLOWING FOR BENJAMIN (PEP)

ORISSA STEEL PLANT

1. I CALLED THIS AFTER NOON ON ALEXANDER (MRS GANDHI'S PRINCIPAL SECRETARY) TO UNDERLINE THE PRIME MINISTER'S PERSONAL INTEREST IN PRODUCING THE BEST RESULT POSSIBLE IN OUR TWO GOVERNMENT'S MUTUAL INTERESTS FROM THE WRECK OF THE STEEL PLANT NEGOTIATIONS. ALEXANDER RESPONDED FRANKLY AND ON THE WHOLE FAVOURABLY.
2. ALEXANDER SAID THAT HE HAD ONLY BEEN BROUGHT INTO THE DETAILED DISCUSSIONS OVER THE STEEL PLANT BECAUSE OF MRS GANDHI'S PERSONAL WISH TO RESCUE AS MUCH AS POSSIBLE FROM THE WRECK. SHE WAS AWARE OF THE PRIME MINISTER'S SPECIAL CONCERN. SHE HAD BEEN MOST IMPRESSED BY THE TONE OF THEIR MEETING IN LONDON IN MARCH AND BY THE RESULTS ACHIEVED. THIS LED ALEXANDER TO PRAISE THE PRIME MINISTER'S HANDLING OF THE FALKLANDS CRISIS AND TO OFFER HIS WARM CONGRATULATIONS ON OUR "WIN". HE SAID THAT IN PUBLIC THE GOVERNMENT OF INDIA'S PLEASURE WOULD BE MUTED BECAUSE OF THEIR MEMBERSHIP OF THE NON-ALIGNED MOVEMENT. I TOOK THE OPPORTUNITY TO TELL HIM OF MY CONVERSATION WITH NARASIMHA RAO, (MY TELNO 542), TO REAS HIM THE WORST PASSAGE IN THE NON-ALIGNED COMMUNIQUE, TO HAND HIM RAMPHAL'S STATEMENT OF 15 JUNE AND TO URGE THAT IT WAS IN INDIA'S INTERESTS TO PUT IN A RESERVATION. HE TOOK NOTE OF ALL THIS BUT I IMAGINED WILL LEAVE IT TO NARASIMHA RAO, WHOSE POLITICAL ADROITNESS HE PRAISED.

IMMEDIATE

ADVANCE COPY

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3. WE THEN WENT BACK TO STEEL AND ALEXANDER ASKED ME ABOUT A PIECE ON THE ORISSA STEEL PLANT WHICH HAD APPEARED PROMINENTLY IN THIS MORNING'S ECONOMIC TIMES UNDER THE HEADLINE "UK OFFERS ASSISTANCE ON REVISED COST BASIS" (TEXT, NOT TO ALL, IN MY IFT). I TOLD HIM THAT THE REPORT THAT I HAD MADE A NEW BRITISH OFFER TO THE MINISTER OF STEEL HAD NOT COME FROM ME AND WAS WIDE OF THE MARK. I HAD TOLD THE MINISTER OF STEEL THAT IF THE INDIANS WOULD TELL US WHAT THEY WANTED WE WOULD PRODUCE THE BEST FINANCING OFFER WE COULD. I ASKED ALEXANDER WHETHER HE THOUGHT THIS WAS THE RIGHT WAY TO PROCEED. HE DID AND SAID THAT THE INDIAN CABINET WOULD TAKE TWO PAPERS IN THE WEEK BEGINNING 26 JUNE: ONE DEALING WITH THE ORISSA STEEL PLANT AND THE OTHER WITH THE VIJAYANAGAR STEEL PLANT. THE FORMER WOULD SUGGEST THAT USE SHOULD BE MADE OF WHAT HAD BEEN ACHIEVED DURING THE ABORTIVE NEGOTIATIONS TO MOVE FORWARD RAPIDLY. IF APPROVED, AN INDIAN TEAM WOULD COME TO LONDON TO NEGOTIATE WITH "THE UK". THE SECOND PAPER WOULD PROPOSE THAT EARLY PROGRESS SHOULD BE MADE WITH SETTING UP A SECOND STEEL PLANT AT VIJAYANAGAR. ALEXANDER COMMENTED THAT THIS WAS BAD ECONOMICS BUT GOOD POLITICS. (VIJAYANAGAR IS IN KARNATAKA WHERE AN IMPORTANT STATE ELECTION WILL TAKE PLACE IN THE NEXT FEW MONTHS). THERE WOULD BE IMPORTANT BUSINESS FOR "THE UK" WHERE IT WAS COMPETITIVE IN THE VIJAYANAGAR PLANT AS WELL AS IN THE ORISSA PLANT.

4. IN REPLY TO MY COMMENTS AND QUESTIONS ALEXANDER GAVE ME THE FOLLOWING CLARIFICATIONS:

(A) THE INDIANS HAD ALREADY DECIDED ON THE BASIS OF THE PRECEDING NEGOTIATIONS WHICH PIECES OF EQUIPMENT THEY WANTED FROM WHICH SUPPLIERS. HE MENTIONED FOR EXAMPLE THE DAVY SINTER PLANT AND THE GEC POWER PLANT. BUT THIS WAS MEANT TO BE ILLUSTRATIVE AND PROBABLY ALSO COVERS THE DAVY BLAST FURNACES AND RAW MATERIALS HANDLING EQUIPMENT WHICH HE HAS PREVIOUSLY MENTIONED TO ME.

(B) ON SUCH ITEMS THE INDIANS WOULD NOT BE GOING IN FOR COMPETITIVE TENDERING PROVIDED THEY COULD GET DECENT TERMS FROM THE SUPPLIERS OF THEIR CHOICE. HE LEFT ME WITH THE IMPRESSION THAT ON SOME OTHER ITEMS THERE WOULD BE INTERNATIONAL TENDERING.

(C) THE INDIANS HAD DROPPED THE IDEA OF A TURN-KEY APPROACH AND WOULD ENTRUST THE PROJECT MANAGEMENT TO TWO NEW INDIAN COMPANIES TO



RUN THE TWO NEW STEEL PLANTS. THEY WERE ALREADY LOOKING FOR A CHAIRMAN FOR THE ORISSA ONE.

(D) HE WAS CONFIDENT THAT THE DECISION WOULD BE TAKEN ALONG THE LINES HE HAD OUTLINED BY THE END OF THIS MONTH.

5. ALEXANDER IS A CAUTIOUS MAN AND HE WOULD NOT HAVE TOLD ME THE FOREGOING UNLESS HE KNEW THAT IT WAS BROADLY ACCEPTABLE TO MRS GANDHI. NEVERTHELESS THINGS IN INDIA HAVE A HABIT OF SLIPPING (MRS GANDHI LAID THE FOUNDATION STONE FOR THE VIJAYANAGAR PLANT ABOUT TEN YEARS AGO) AND IT WOULD BE IMPRUDENT TO COUNT ON BOTH PAPERS RECEIVING CABINET APPROVAL BY THE END OF THE MONTH. IT IS VERY IMPORTANT THAT NO HINT OF WHAT ALEXANDER SAID SHOULD GET OUT SINCE THERE ARE PLENTY OF OUR COMPETITORS WHO WILL BE KEEN TO THROW SPANNERS INTO THE WORKS. I REFERRED SEVERAL TIMES TO DAVYS BUT IT WAS NOTICEABLE THAT ALEXANDER INVARIABLY SPOKE OF "THE UK". I AM NOT CLEAR WHAT ROLE, IF ANY, BEYOND THAT OF A SUPPLIER IS SEEN FOR DAVYS. YOU WILL KNOW BEST HOW TO HANDLE THE SITUATION IN LONDON BUT I BELIEVE THAT WE SHOULD BE EXTREMELY CAUTIOUS IN ANYTHING THAT WE SAY TO DAVYS AT THIS STAGE. IF THE UK GETS REALLY SUBSTANTIAL ORDERS OUT OF ALL THIS IT WILL BE LARGELY DUE TO THE GOOD RELATIONSHIP BETWEEN THE TWO PRIME MINISTERS AND TO OUR ACTION IN RELATIONS TO IDA 6.

THOMSON

NNNN





10 DOWNING STREET

THE PRIME MINISTER

21 May 1982

cc DOT  
ODA  
FCO (M/S)  
CH SEC HRT  
DOI  
Trade.

Dear Sir John,

Thank you for your letter of 14 May about the Indian steel project. I know how disappointed you and your team must be. I too had hoped very much that you would have been able to lead this very major venture.

We and our High Commissioner share your aim of trying to gain as much business as possible from future Indian plans to proceed with this project. I am certainly prepared to contact Mrs. Gandhi about this but I think it may be best to wait until her current election campaign is over.

Yours sincerely  
Margaret Thatcher

Sir John Buckley.

He





Trade

10 DOWNING STREET

*From the Private Secretary*

21 May 1982

ORISSA STEEL PLANT

Thank you for your letter of 19 May.  
I am afraid that the Prime Minister was not able to see this until last night. You may like to know that she was content with the line which you proposed Sir John Thompson should take at his informal meeting with Mrs. Gandhi, though I fear this information reaches you too late for your purposes.

A. J. COLES

Nicholas McInnes, Esq.,  
Department of Trade.

2





DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215  
SWITCHBOARD 01 215 7877

From the  
Minister for Trade

Clive Whitmore Esq  
Principal Private Secretary  
to the Prime Minister  
10 Downing Street  
London SW1A 0AA

19 May 1982

*Type letter pl.*

*AK 11/5*

Dear Whitmore,

INDIA: ORISSA STEEL PLANT

Thank you for your letter of 14 May, enclosing a copy of a letter from Sir John Buckley of Davy to the Prime Minister about the Orissa steel plant.

Mr Rees saw Sir John Buckley on Monday, and heard from him his view of what had occurred, and the prospects for re-establishing UK participation in the project, assuming that the Indians decide to go ahead with it. Sir John commented that the project would have been the largest fixed priced turnkey contract ever undertaken from Western Europe, and that the amount of work needed to bring it to fruition had probably been under-estimated. The Indian Government's decision following the award of the Letter of Intent, to change both the site of the plant and the product mix, while justified on their merits, had inevitably increased the cost and created uncertainty. In his view, there was simply inadequate time for the Indian Government to deal with the political consequences of departing from the basis on which the Letter of Intent had been awarded. Looking to the future, Sir John noted that the Indian Government had not yet decided how to proceed, but it appeared likely that the turnkey approach would be abandoned. If the plant went ahead, he saw scope for substantial UK participation, given the immense amount of work that had been done, and that agreement had effectively been reached with Davy on all matters including price for substantial parts of the plant. Various options that might be presented to the Indian Government are being explored with Davy by officials here.





Mr Rees considers that from the Government's point of view the prime consideration now must be to obtain as much benefit as possible for the UK from whatever course of action the Indians decide to follow. We remain hopeful that this would involve substantial participation by Davy. However, it is clear from the High Commissioner's report from Delhi that Davy's approach and tactics in the last few weeks have not been beyond criticism, and that the Indians may have reservations about the prominence of the role to be given to Davy in any revised package; however, they do appear favourably disposed to substantial participation from the UK, reflecting the excellent state of Government to Government relations following Mrs Gandhi's visit. The Indians have been very helpful in trying to control the publicity, and their latest public pronouncement yesterday leaves clear scope for UK participation.

You will have seen the High Commissioner's telegram Creda 218 of 15 May, giving his views on whether the Prime Minister should be advised to write to Mrs Gandhi. We are awaiting his further views, but would concur with the advice that such a message could play a useful part in re-establishing UK participation in this project, but should not be sent at earliest until Mrs Gandhi has returned from electioneering.

The draft reply to Sir John Buckley, attached, assumes that the Prime Minister will be prepared to send such a message to Mrs Gandhi, as and when the High Commissioner advises that it is appropriate.

I am copying this letter to the offices of Patrick Jenkin, Leon Brittan, Douglas Hurd and Neil Marten.

*Yours sincerely,*

*Nicholas McInnes*

N McINNES  
Private Secretary to the  
Minister for Trade (PETER REES)



**DRAFT**

Addressed to :

Sir John Buckley  
Davy Corporation Ltd  
15 Portland Place  
London W1A 4DD

**File No.**

Copies to :

Originated by:  
(Initials and date)

MN-R  
18/5/82

Seen by:  
(Initials and date)

Enclosures :

Type for signature of

PM  
.....  
(Initials and date)

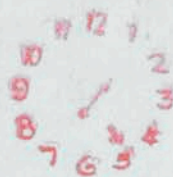
**DEPARTMENT OF TRADE**

Thank you for your letter of 14 May about the Indian steel project. I know how disappointed you and your team must be. I too had hoped very much that you would have been able to lead this very major venture.

We and our High Commissioner share your aim of trying to gain as much business as possible from future Indian plans to proceed with this project. I ~~shall~~ *am certainly prepared* ~~of course be very ready~~ to contact Mrs Gandhi ~~when the time is right.~~ *about this but I think it may be best to wait until her current election campaign is over.*



19 MAY 1982







From the  
Minister for Trade

John Coles Esq  
Private Secretary  
10 Downing Street  
London SW1A 0AA

DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144  
SWITCHBOARD 01 215 7877

19 May 1982

Dear John,

ORISSA STEEL PLANT

My Minister recognizes that the Prime Minister has major concerns at the moment, but our High Commissioner in Delhi has been invited to an informal meeting with Mrs Gandhi tomorrow. This is an invaluable moment for us to put over our concern that, whilst the GOI have decided to follow a different route for the steel plant from that originally proposed, we would still hope for a significant British contribution to this development.

If the Prime Minister agrees, we would like to authorise John Thompson to take the following general line:

"Our Prime Minister is very pleased at the successful conclusion of the thermal power contract, but sad that for reasons which are well understood the Indian Government has felt compelled to withdraw the Letter of Intent for the steel contract. I would go on to say something about the importance of the financial package and the need to get the project going again quickly even though possibly in a different form. I would suggest that the maximum use should be made of the expensive work that has already been done with Davys and that this would permit early decisions.

I would say that we hope that under the new organisation for developing the steel plant, Davys will still be allowed to play a significant role, perhaps in co-ordinating European supplies. At the same time I would stress the Prime Minister's special hope that in the excellent spirit which was achieved during Mrs Gandhi's visit to London the maximum orders could be placed with British industry. I would aim to avoid saying anything specific about British aid, though I would of course make it clear that HMG would consider sympathetically its contribution to the financial package. Finally, I would

Prime Minister

Agree that Sir J. Thompson  
should speak to Mrs. Gandhi  
as at X below?

A.J.C. 19.  
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*A. J. C.*





say that our Prime Minister has not written formally since she recognizes Mrs Gandhi's pre-occupations but may do so at an appropriate time."

I am copying this letter to Jonathan Spencer (Industry), Terry Mathews (Treasury), Stephen Lamport (FCO) and Pam Hilton (ODA).

*Yours ever,*

*Nicholas McInnes*

N McINNES  
Private Secretary to the  
Minister for Trade (PETER REES)





TRADE  
c. DOT  
CS (Hunt)  
FCO - Hurd  
OBA - Marten

10 DOWNING STREET

*From the Principal Private Secretary*

17 May 1982

ORISSA STEEL PLANT

You wrote to John Coles on 14 May 1982 about the Orissa Steel Plant.

We have shown your letter to the Prime Minister, and she has taken note of the present situation.

I have of course already written to you seeking your advice on a reply for the Prime Minister to send to a letter which Sir John Buckley sent her last Friday about the project.

I am sending copies of this letter to the recipients of yours.

C. A. WHITMORE

N. McInnes, Esq.,  
Department of Trade.

tu



2.



From the  
Minister for Trade

Mr A J Coles  
PS/Prime Minister  
10 Downing Street  
Whitehall  
London SW1

*Prime Minister*

*There is a letter from*

*Sir John Buckley*  
*in his letter.*

*AK*

*14v*

DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144  
SWITCHBOARD 01 215 7877

14 May 1982

Dear John,

ORISSA STEEL PLANT

*Delhi tel no. 210 alt' d. - and 213.*

Copies of recent telegrams from New Delhi on this subject will have reached you at No 10 but my Minister asked me to write to you with his own comments on the way events have unfolded.

Mr Rees has been keeping in close touch with the situation and has explored with officials here what, if any, action should be taken to deal with the situation.

The Minister has asked Sir John Buckley (the Chairman of Davy) to see him on Monday in order to get a firsthand report from him and to explore how best to secure for the UK a substantial part in whatever form the Indians now decide the project should take.

The judgment we form here is that the Indians have only now realised the consequences of maintaining the turn-key approach to a project which has been substantially altered from the original conception upon which the Letter of Intent was based. Not only has the location of the steel plant been moved at a very late stage in the negotiations but also the specifications for the project have undergone extensive modification. Doubtless the Indians hoped that they might still have the benefit of the old price with the new concept but that would have been an impossible position for Davy despite the crucial importance to them of the project and the substantial sums they have already spent on it. The important thing now as we see it is to avoid recriminations and instead to work actively to see what role we can secure for Davy and the other UK companies in whatever now goes forward. Indian officials have already indicated that they do not rule out the possibility of substantial equipment supply from the UK. In all of this we shall have to have careful regard to what is said to the press.





In short what has occurred looks for the moment as being by no means the end of the story and we must do all we can to avoid any precipitate action which might make it the end of the story so far as the UK is concerned. It is possible that we shall want to suggest some personal communications between the Prime Minister and Mrs Gandhi as one of the means of achieving this objective.

I am sending copies of this letter to PS/Mr Hurd, FCO, PS/Mr Marten, ODA, PS/SOS, DOI and PS/Ch Secretary (Treasury).

*Yours ever,*

*Nick McInnes*

N McINNES  
Private Secretary to the  
Minister for Trade (PETER REES)



14 MAY 1962





NO DISTRIBUTION

K129

DWF G 42/14

LUK 466/14

OO FCO (DOT) (DESKBY 141100Z)

OO FCO

OO NUMBER TEN

GRS 480

CONFIDENTIAL

DESKBY 141100Z

FM DELHI 140843Z MAY 82

TO IMMEDIATE DOT

TELEGRAM NUMBER CREDA 210 OF 14 MAY

INFO IMMEDIATE FCO, NUMBER TEN

MY CREDA 207: ORISSA STEEL PLANT

1. GHOSH YESTERDAY HANDED OVER TO RAPER A FORMAL LETTER TERMINATING THE NEGOTIATIONS FOR A FIXED PRICE TURNKEY CONTRACT. RAPER SHOWED ME THE LETTER BUT DID NOT LEAVE A COPY. IT CLAIMS THAT THE PROPOSAL OF 9 MAY (FOR MECON TO DO THE ONSHORE WORK) REPRESENTED A UNILATERAL DEPARTURE BY DAVY FROM THE FIXED PRICE TURNKEY CONCEPT: THE LETTER OF INTENT OF SEPTEMBER 1981 AND THE MOU OF FEBRUARY 1982 ARE THEREFORE "REVOKED AND RESCINDED".

2. ALTHOUGH IT PUTS THE ONUS FOR THE BREAKDOWN ON DAVY, THE LETTER DOES NOT MENTION THE PRICE ESCALATION AND DOES NOT THEREFORE EXCLUDE THE POSSIBILITY OF SUBSTANTIAL SUPPLY OF EQUIPMENT BY DAVY OR OTHER BRITISH FIRMS (GHOSH MENTIONED TO RAPER, AS GILL HAD TO ME, THE SINTER PLANT AND BLAST FURNACE AND POWER PLANT). I AGREED WITH RAPER THAT OUR TACTICS SHOULD BE TO USE THE ATTRACTIONS OF THE FINANCING PACKAGE (PARTICULARLY THE EUROCURRENCY LOAN SINCE WE CANNOT BE SURE OF THE SIZE OF AID) AS A LEVER FOR EARLY DECISIONS

SAD

TRED

10 Downing St.

[T+1  
DOT/CRZ]

X3



CANNOT BE SURE OF THE SIZE OF AID) AS A LEVER FOR EARLY DECISIONS ON SOURCES OF SUPPLY FOR THE STEEL PLANT. BENJAMIN AND BEETHAM HAVE URGED THE DEA TO PURSUE THIS ARGUMENT WITH THE STEEL MINISTRY.

3. I DISCUSSED WITH RAPER, BENJAMIN AND LAZARDS THE QUESTION OF PUBLICITY. IT WAS CLEAR TO ME THAT THERE WAS ALREADY A GOOD DEAL OF PUBLICITY AND THAT MORE WAS INEVITABLE. WE SHOULD DO BEST TO AGREE A JOINT LINE WITH THE GOVERNMENT OF INDIA. LAZARDS STRESSED THE IMPORTANCE FOR THE MAINTENANCE OF THE FINANCIAL PACKAGE OF AVOIDING ALARMIST SPECULATION AND OF REASSURING THE BANKS INVOLVED IN THE EUROLOAN. RAPER WAS CLEAR THAT FOR THE TIME BEING AT ANY RATE DAVYS WOULD STICK TO A 'NO COMMENT' POSITION.

4. BENJAMIN AND I CALLED ON GILL THIS MORNING. WE AGREED THAT THE PRESS QUESTIONING WAS BECOMING INSISTENT AND UNAVOIDABLE. WE ALSO AGREED ON THE NEED FOR A LINE WHICH WOULD DO SOMETHING TO REASSURE THE BANKS. IN THE ABSENCE OF HIS MINISTERS HE WAS UNABLE TO AGREE TO AN OFFICIAL JOINT STATEMENT. WE AGREED HOWEVER THAT BOTH SIDES WOULD USE THE LINE CONTAINED IN MY IFT, AND THAT WE WOULD DO OUR BEST NOT TO GO BEYOND IT. HOWEVER SENIOR JOURNALISTS WHO WERE INSISTENT WOULD BE GIVEN A LITTLE MORE BUT ONLY BY SENIOR OFFICERS IN THE MINISTRY OF STEEL OR IN THIS MISSION. TO THE EXTENT NECESSARY WE WILL TAKE THE LINE (NOT AGREED WITH THE INDIANS IN DETAIL) IN MY SECOND IFT.

5. GILL UNDERTOOK TO SEND THE AGREED LINE TO THE INDIAN HIGH COMMISSION IN LONDON. HE ALSO AGREED THAT LAZARDS SHOULD BE AUTHORISED TO TELL THE BANKS THAT THE AGREED LINE HAD HIS PERSONAL APPROVAL.

FCO PLEASE PASS TO NUMBER TEN DOWNING STREET

THOMSON

NNNN



ADVANCE COPY

IMMEDIATE

DWF G 66/14

LMLUK 478/14

00 FCO (DOT) (DESKBY 141200Z)

00 FCO

00 NO 10

00 FCO (ODA)

GRS 560

CONFIDENTIAL

DESKBY 141200Z

FM DELHI 140953Z MAY 82

TO IMMEDIATE DOT

TELEGRAM NUMBER CRED A 213 OF 14 MAY

INFO IMMEDIATE FCO, NO 10, ODA

MY CRED A 207: ORISSA STEEL PLANT

1. IT IS DISAPPOINTING THAT WE HAVE NOT GOT THE STEEL PLANT CONTRACT ON THE LINES ENVISAGED ESPECIALLY GIVEN ALL THE EFFORT THAT WE PUT INTO IT LAST SUMMER AND SUBSEQUENTLY. IT IS PLAIN THAT THIS RESULT IS NOT DUE TO A LACK OF GOOD WILL ON THE INDIAN SIDE. THEY CLAIM (AND ON THE WHOLE I BELIEVE THEM) THAT THEY WOULD HAVE BEEN READY TO NEGOTIATE ADJUSTMENTS BOTH IN THE TURNKEY CONCEPT AND IN THE PRICE HAD THEY BEEN AWARE EVEN AS LATE AS FEBRUARY OR MARCH OF DAVY'S REAL POSITION. THEY SAY THAT WHEN THIS WAS DISCLOSED TO THEM ON 20 APRIL IT CAME AS A BOMBSHELL. THERE WAS NOT SUFFICIENT TIME TO ABSORB IT, NEGOTIATE IN A TENSE POSITION AND OBTAIN CABINET APPROVAL FOR A REVISED CONCEPT. SINCE THERE IS STILL A GREAT DEAL TO PLAY FOR IT IS IMPORTANT TO AVOID REGRIMINATIONS.

2. I BELIEVE THAT WE CAN STILL OBTAIN A GOOD OUTCOME FOR BRITISH

~~R/~~ No 10 Downing St (2)  
Hq. JAG.  
Hq. 1 Reg.  
ODA.  
(4)  
(Dot (CRE)).



2. I BELIEVE THAT WE CAN STILL OBTAIN A GOOD OUTCOME FOR BRITISH INDUSTRY AND BANKING PROVIDED WE PLAY OUR HAND SKILFULLY AND WITH DUE CONSIDERATION FOR THE INDIAN PERSONALITIES AND POLITICS INVOLVED. IN MY VIEW THE ESSENCE OF OUR STRATEGY SHOULD BE TO GET THE GOI TO MAKE PROPOSALS AND THAT WE SHOULD THEN TELL THEM TO WHAT EXTENT WE WOULD BE PREPARED TO ASSIST IN FINANCING THEM. IN THIS WAY I HOPE TO REVERSE THE POSITION HITHERTO AND PUT THE INDIANS IN THE POSITION OF DEMANDEUR.

3. BENJAMIN AND I BEGAN THIS PROCESS WHEN WE SAW GILL THIS MORNING. I SAID THAT FOLLOWING THE INDIAN LETTER TO DAVY OF YESTERDAY ALL GOVERNMENT BETS WERE OFF IE THERE WAS AT THE MOMENT NO BRITISH AID MONEY ON THE TABLE. WHAT WE PUT FORWARD IF ANYTHING WOULD DEPEND ON WHAT THE INDIANS OFFERED US. I SAID THAT THE VERY FAVOURABLE FINANCIAL PACKAGE NEGOTIATED BY LAZARDS WAS LINKED SPECIFICALLY TO THE STEEL PROJECT AND WAS DUE TO EXPIRE ON 21 MAY. HOWEVER I WAS ASKING LAZARDS TO USE THEIR BEST ENDEAVOURS TO EXTEND THIS TO 29 OR 30 MAY (I HAPPEN TO KNOW THAT LAZARDS HAVE ALREADY GOT THIS AUTHORITY FROM THE OTHER BANKS). IN ORDER TO MAKE USE OF THIS SHORT SPACE OF TIME I PROPOSED THAT WE SHOULD AGREE ON THE FOLLOWING TIMETABLE:

18 MAY: GILL SHOULD GIVE ME GOVERNMENT OF INDIA PROPOSALS:

19 AND 20 MAY: THESE WOULD BE DISCUSSED BETWEEN US AND REPORTED TO LONDON:

21 TO 24 MAY: THE UPSHOT WOULD BE CONSIDERED IN LONDON AND IF NECESSARY IN OTHER CAPITALS:

25 MAY: THE DISCUSSION WOULD BE RESUMED IN DELHI ON THE BASIS OF UPDATED INSTRUCTIONS:

26 MAY: WE SHOULD REACH AGREEMENT AD REFERENDUM:

27 AND 28 MAY: THE GOVERNMENTS INVOLVED SHOULD CONSIDER AND RATIFY THE AGREEMENT:

29 MAY: SIGNATURE OF THE CONTRACT AND THE MANDATE TO THE BANKS.

4. GILL AGREED THAT WE MUST HAVE A TIMETABLE, AND AT FIRST HEARING THIS WAS AN ACCEPTABLE BASIS ON WHICH TO WORK BUT HE WOULD HAVE TO CONSULT WITH HIS COLLEAGUES ESPECIALLY FROM THE DEPARTMENT OF ECONOMIC AFFAIRS. HE WOULD GIVE ME HIS ANSWER TOMORROW.



OF ECONOMIC AFFAIRS. HE WOULD GIVE ME HIS ANSWER TOMORROW.

5. WE THEN WENT ON TO AGREE THE RESPONSE TO PRESS QUERIES IN MY TEL NO CRED A 211. WE HAD SOME DIFFICULTY IN RETAINING THE NAME OF DAVY IN THE FUTURE SCENARIO.

6. THE NEGOTIATION PROPOSED MAY BE VERY DIFFICULT BUT WITH GOOD WILL ON BOTH SIDES I BELIEVE THERE IS A REASONABLE CHANCE OF SUCCESS. I AM DISCUSSING WITH BENJAMIN THE MECHANICS OF THIS TRICKY OPERATION. HE IS RETURNING TO LONDON TONIGHT AND WILL BE AVAILABLE FOR CONSULTATION TOMORROW. ONE OF THE POINTS ON WHICH HE WILL HAVE MY VIEWS CONCERNS THE RESPECTIVE ROLES OF THE VARIOUS PARTICIPANTS ON THE BRITISH SIDE.

FCO PLEASE PASS TO NO 10 DOWNING STREET

THOMSON

NNNN





Trade  
JL  
as by  
FW

10 DOWNING STREET

From the Principal Private Secretary

14 May 1982

BF

Dear Mr James,

INDIA : ORISSA STEEL PLANT

I attach a copy of a letter from Sir John Buckley of the Davy Corporation Limited to the Prime Minister about the Orissa steel plant.

I should be grateful if you could let me have, as soon as possible, a draft reply for the Prime Minister to send to him.

I am sending copies of this letter and of Sir John Buckley's letter to Terry Mathews (Treasury) and Stephen Lamport (Foreign and Commonwealth Office).

Yours sincerely,

Alvin Whitmore.

Nicholas McInnes Esq.,  
Department of Trade.

AK





26 AH

10 DOWNING STREET

*From the Principal Private Secretary*

14 May 1982

*Dear Sir John,*

I am writing, on behalf of the Prime Minister, to thank you for your letter of 14 May 1982 about the Indian steel project.

Mrs Thatcher is out of London this afternoon but I will ensure that she sees your letter as soon as possible after her return.

*Yours sincerely,*

*Alfred Whitham.*

Sir John Buckley

AH





2

Sir John Buckley

**Davy Corporation Ltd**

15 Portland Place  
London W1A 4DD  
England

Tel: 01-637-2821

Telex: 22604

14 May 1982

The Rt. Hon. Margaret Thatcher MP  
10 Downing Street  
LONDON SW1

Prime Minister

We have asked for a  
happy reply.

not

the

14.v.

Dear Prime Minister,

I have just returned from Delhi after spending several days there with my colleagues in the final attempt to bring the Indian steel project to a successful conclusion by the critical date of 15 May. I regret to report the outcome is most disappointing, as the High Commissioner, Sir John Thomson, may have already reported.

We were informed on Wednesday 12 May, by the Permanent Secretary at the Department of Steel, that the Indian Government had decided at a Cabinet Meeting, held the previous day, that for a number of reasons they would not proceed with the project as originally conceived and that other means would be employed. However, the hope was expressed that Davy would have an important part to play but that no firm undertaking could be given. I also met Dr. Alexander, Secretary to the Cabinet, who explained the position to me.

A top executive has remained in India, together with a team, in the hope that something can be done to establish a new position. The Indian authorities seemed to want this, although I doubt whether any immediate benefit will be obtained.

Having given so much personal support to this project I am sure you will be as disappointed as we are that despite the enormous effort and cost and the willingness of the Government to provide such generous financial support for the project, it has not been possible to convert the Letter of Intent into a contract. We are most grateful to you for the strong backing we have received.

/Cont'd....



The Rt. Hon. Margaret Thatcher MP

14.5.82

I believe it would help if a message could be sent to the Indian Government expressing your disappointment and I do hope you will not think it presumptuous of me to suggest this course. I understand Mrs. Gandhi was not at the Cabinet Meeting when the decision to alter things was made.

As always Sir John Thomson has been enormously helpful and like us is extremely saddened by the turn of events; no-one could have tried harder for success.

It may well be that the project is to be delayed indefinitely and that the present action is a step in that direction.

Yours Sincerely,  
John R. L. L. L.



ADVANCE COPY

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IMMEDIATE

[T+1 | CRE:DOT]

00 FCO

PS/N<sup>o</sup> 10 Downing St

GRS 200

SAD

CONFIDENTIAL

TRED

DESKBY 121430Z

FM DELHI 121230Z MAY 82

TO IMMEDIATE DOT

TELEGRAM NUMBER CREDA 203 OF 12 MAY.

INFO IMMEDIATE FCO, NO 10 DOWNING STREET.

MY TELNO CREDA 199: ORISSA STEEL PLANT

1. THE DAVY TEAM, ACCOMPANIED BY BEETHAM, HAD A LONG MEETING WITH GILL THIS MORNING DURING WHICH THE LATTER UNDERLINED THE GOI'S VIEW OF DAVY'S DEPARTURE FROM THE CONCEPT OF A FIXED PRICE TURNKEY CONTRACT BY:

(A) NOT BEING PREPARED TO OFFER A FIXED ONSHORE PRICE SEMICOLON

(B) NOT ABIDING BY THE TECHNICAL PARAMETERS SEMICOLON

(C) PLAINLY ESCALATING THE OFFSHORE PRICE (TAKING EXCHANGE RATES INTO ACCOUNT, BY SOME DOLLARS 970 MILLION).

2. GILL SAID THAT THE GOI WOULD THEREFORE HAVE TO CANCEL THE OLD FRAMEWORK AND START AFRESH. OTHERWISE ITS CREDIBILITY IN AWARDING A FIXED PRICE TURNKEY CONTRACT WHICH WAS NEITHER, WOULD BE NIL.

3. AT A FURTHER MEETING THIS AFTERNOON WITH BENJAMIN AND BEETHAM (WITHOUT DAVY) GILL SAID VERY CLEARLY THAT THE OLD CONCEPT "NO LONGER SURVIVES" BECAUSE OF DAVY'S POSITION ON THE ONSHORE CONTRACT (WHICH WAS A POINT OF PRINCIPLE FOR THE GOI) AND THE PRICE ESCALATION. THIS DECISION WOULD BE COMMUNICATED FORMALLY TO DAVY TOMORROW. THE GOI HAD NOT DECIDED ON THE NEXT STEPS, BUT HE (GILL) WOULD LIKE TO DISCUSS THEM WITH ME. I AM SEEING HIM AT 0500Z TOMORROW.

FCO PLEASE PASS IMMEDIATE TO NO. 10 DOWNING STREET.

THOMSON



CONFIDENTIAL



*Trade*

OVERSEAS DEVELOPMENT ADMINISTRATION

ELAND HOUSE

STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

*N.B. P.M.*

*ADL 4/5.*

From the Minister

12 May 1982

*Dear Peter,*

INDIA: ORISSA STEEL PLANT

I have seen your minute of 7 May to the Prime Minister and Leon Brittan's letter of 10 May commenting on the same subject.

I am simply writing to confirm that, assuming that spending of the additional sum will be phased over the lifetime of the project, we could accommodate capital aid of £120 million within the overall resources planned for overseas aid. That is to say, we could accommodate the extra £10 million mentioned in paragraph 3(b) of your minute, over and above the £110 million already provisionally offered.

Leon Brittan mentions, in the third paragraph of his letter, local costs. So far as aid is concerned, we have of course been working on a figure of £50 million as our contribution of RTA local cost aid; this would be financed from within our prospective regular bilateral aid programme to India.

I am sending copies of this letter to the Prime Minister and to other members of EX Committee and to Leon Brittan, Kenneth Baker and Douglas Hurd.

*Yours,*

*Neil*

NEIL MARTEN

Peter Rees Esq QC MP  
Minister for Trade

CONFIDENTIAL



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IMMEDIATE

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LUK NR 366/11

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00 NO. 10

GRS 800

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DESKBY 111500Z

FROM DELHI 111250Z MAY

TO IMMEDIATE FCO

TELEGRAM NUMBER CREDA 199 OF 11 MAY 1982

INFO IMMEDIATE FCO, NO 10

YOUR TELEGRAM NUMBER CREDA 203: ORISSA STEEL PLANT

1. SINCE FRIDAY THERE HAVE BEEN INTENSIVE DISCUSSIONS BETWEEN OURSELVES, BENJAMIN AND DAVYS (LED BY WHITING) AND ALSO FREQUENT EXCHANGES WITH THE INDIANS. BOTH SETS OF MEETINGS HAVE LED TO NUMEROUS TELEPHONE CALLS TO PARTIES IN LONDON. THE MAIN EVENTS HAVE BEEN:

(A) A MEETING ON 8 MAY BETWEEN GILL, WHITING AND MYSELF AT WHICH WHITING AND I TRIED OUT ON GILL AN IDEA SUGGESTED TO US AS A WAY OF BREAKING THE DEADLOCK IN THE NORMAL NEGOTIATIONS (MY TELNO CREDA 190) WHICH HAD LEFT A GAP OF SOMETHING LIKE DOLLARS 400 MILLION. THE IDEA WAS THAT DAVYS SHOULD SAY THAT THE CHANGE OF SITE, ETC, MADE IT IMPOSSIBLE FOR THEM TO QUOTE A FIXED PRICE FOR THE ON-SHORE WORK BY 15 MAY. HENCE THEY WOULD BE HAPPY FOR MECON TO TAKE THIS ON UNDER THEIR OVERALL TECHNICAL SUPERVISION. THE DETAILS OF THIS WOULD BE DECIDED LATER BUT A FIRM FOB CONTRACT FOR DOLLARS 2,182 MILLION WOULD BE CONCLUDED BY 15 MAY. THEN



FOR DOLLARS 2,182 MILLION WOULD BE CONCLUDED BY 15 MAY. THEN WE WOULD GET AWAY FROM THE OLD FRAMEWORK WITH THE PRICES ATTACHED TO IT AND BEGIN ON A NEW BASIS. GILL REPLIED THAT THIS IDEA IN PRINCIPLE SEEMED THE ONLY WAY OUT. WE DREW ATTENTION POINTEDLY TO THE FOB PRICE BUT GILL MADE NO COMMENT. WE DISCUSSED WITH HIM IN GENERAL TERMS THE DRAFT OF A LETTER TO GIVE EFFECT TO THE ABOVE SCHEME.

(B) THE LETTER (COPY BY BAG) DATED 9 MAY WAS SENT TO GILL ON SUNDAY. HE SAID HE WOULD HAVE TO CONSULT HIS COLLEAGUES EG IN THE DEA, AND WOULD LET US KNOW THE RESULT AT LUNCH TIME ON MONDAY. MEANWHILE IT WAS ARRANGED THAT HOYLE AND GHOSH SHOULD GO THROUGH THE ANNEXES TO THE LETTER NOT WITH THE INTENTION OF NEGOTIATING THEM BUT SIMPLY TO VERIFY THAT THE TWO SIDES WERE TALKING ABOUT THE SAME THING. THE RESULT OF THIS DISCUSSION WAS AN IDENTITY OF VIEWS.

(C) ON MONDAY AFTERNOON GILL KEPT POSTPONING A DEFINITIVE REPLY UNTIL EVENTUALLY WHITING AND I CALLED ON HIM IN THE EVENING. HE SAID THAT HE HAD STILL NOT HAD REACTIONS FROM ALL CONCERNED. HE MADE NO MENTION OF ANY SUBSTANTIVE POINT, THOUGH GIVEN VARIOUS OPPORTUNITIES TO DO SO, AGREED TO ENSURE THAT THE WORK ON THE DOCUMENTATION WAS SPEEDED UP AND WAS GENERALLY AMIABLE. NEVERTHELESS WHITING AND I LEFT WITH A SENSE OF DISQUIET. ACCORDINGLY, I RANG ALEXANDER IMMEDIATELY AND HE AGREED TO SEE ME THE NEXT MORNING.

(D) WHEN I SAW ALEXANDER THIS MORNING HE SAID THE INDIANS FELT "LET DOWN" BY DAVYS. IT WAS APPARENT THAT DAVYS WERE NOT ABLE TO FULFIL THE FIXED PRICE TURNKEY CONTRACT FOR WHICH THEY HAD BID. HE REFERRED TO THE LETTER OF 9 MAY AS ILLUSTRATION OF THIS BUT STRESSED THAT "THE IMPORTANT THING IS THAT DAVY IS NOT STICKING TO THE OLD QUOTATION FOR FOB". I REBUTTED HIS POINTS MAKING IT CLEAR THAT DAVY HAD ASSURED ME THAT THEY WOULD CARRY OUT THE ORIGINAL SPECIFICATIONS AS THEY UNDERSTOOD THEM FOR THE PRICE THEY HAD ORIGINALLY QUOTED. WE AGREED THAT THE ESSENCE OF THE

MATTER WAS A SEVERE DIFFERENCE OF OPINION BETWEEN DAVY AND THE INDIAN SIDE ON WHAT WAS COVERED BY THE ORIGINAL QUOTATION AND ON THE EFFECT OF VARIOUS CHANGES INTRODUCED BY THE INDIAN SIDE. ALEXANDER SAID THAT THE CABINET WOULD MEET LATER IN THE DAY. HE BELIEVED THAT IT WOULD CONCLUDE IN THE LIGHT OF THE SITUATION HE HAD DESCRIBED THAT THE LETTER OF INTENT TO DAVY WAS INVALID OR INOPERATIVE. THEY WOULD ALSO REAFFIRM THEIR DECISION TO PROCEED WITH THE STEEL PLANT PROJECT. THEY WOULD PROBABLY INSTRUCT THE MINISTRY OF STEEL TO PRESENT THEM WITH OPTIONS TO THIS END



THE MINISTRY OF STEEL TO PRESENT THEM WITH OPTIONS TO THIS END WHICH COULD INCLUDE A CONTRACT WITH DAVY ON THE "NEW BASIS" INDICATED IN THE LETTER OF 9 MAY BUT COULD ALSO INCLUDE OTHER FORMS OF CONTRACT WITH OTHER PEOPLE. I SPOKE STRONGLY ABOUT THE EFFECT ON MY GOVERNMENT AND ON THE PRIME MINISTER PERSONALLY OF A TERMINATION OF AN ARRANGEMENT IN TO WHICH BOTH SIDES HAD PUT SO MUCH EFFORT AND HMG HAD BEEN PREPARED TO PROVIDE SO MUCH FINANCIAL ASSISTANCE. ALEXANDER ASSURED ME THAT THE GOVERNMENT OF INDIA WAS GREATLY APPRECIATIVE OF THE OUTSTANDING EFFORTS BY HMG AND DID NOT IN ANY WAY BLAME THEM FOR THE SITUATION THAT HAD ARISEN. THE GAP BETWEEN THE PRICE DAVY HAD ORIGINALLY BID FOR FOB AND THEIR NEW PRICE WAS TOONHIGH AND THAT WAS THE PROBLEM.

(E) AT THAT POINT I DEPLOYED THE CONCESSIONS IN PARA 2 OF YOUR TELEGRAM UNDER REFERENCE. ON THE BASIS OF A PREVIOUS CONSULTATION WITH LAZARDS, I TOLD ALEXANDER THAT THE CAPITALISATION OF INTEREST WOULD SAVE THE GOVERNMENT OF INDIA A SUM IN THE ORDER OF DOLLARS 120 TO DOLLARS 140 MILLION. I POINTED OUT THAT THIS TOGETHER WITH THE AID AND HIS ADMISSION THAT THE NET OF THE INDIAN ADDITIONS AND DELETIONS TO THE SPECIFICATION AMOUNTED TO AN ADDITIONAL SUM OF DOLLARS 60 TO DOLLARS 75 MILLION REDUCED THE GAP BETWEEN THE TWO SIDES TO DOLLARS 200 MILLION AT THE MOST. I SAID THAT THIS WAS A LOT LESS THAN THE GOVERNMENT OF INDIA WOULD HAVE TO PAY IF THEY MISSED THE PRESENT DEADLINE AND BOUGHT THE SAME STEEL PLANT NEXT WEEK. ALEXANDER ASSENTED TO ALL OF THIS AND ASKED WHETHER HE COULD QUOTE ME TO THIS EFFECT AT THE CABINET MEETING. I SAID HE COULD. HOWEVER HE REAFFIRMED HIS EXPECTATION THAT THE CABINET WOULD CONCLUDE AS SUGGESTED ABOVE.

2. WHITING LEFT LAST NIGHT FOR LONDON AND WAS REPLACED EARLY THIS MORNING BY SIR JOHN BUCKLEY WITH WHOM I HAVE SO FAR HAD TWO CONSULTATIONS TODAY. DAVY ARE READY TO CUT THEIR PRICE BY A FURTHER DOLLAR 22 MILLION CALCULATED AS ABOUT 1% OF THEIR FOB PRICE. HOWEVER AS FAR AS I KNOW, THEY HAVE NOT COMMUNICATED THIS TO THE INDIANS AND WHEN I RANG ALEXANDER A FEW MINUTES AGO WITH THE OBJECT OF BRINGING BUCKLEY TO SEE HIM I WAS TOLD HE WAS IN A CABINET MEETING.

THOMSON

NNNN



Trade



Prime Minister

To note

MR 11/5

2

Treasury Chambers, Parliament Street, SW1P 3AG

Peter Rees Esq QC MP  
Minister for Trade  
Department of Trade  
1 Victoria Street  
London SW1H 0ET

10 May 1982

W

Dear Minister,

INDIA: ORISSA STEEL PLANT

I have seen your minute of 7 May to the Prime Minister about further concessions necessary to enable Davy's to conclude the contract for the construction of the steel plant at Orissa. I see that the Prime Minister has accepted your recommendations.

Yes - but  
subject to the  
views of Ex  
colleagues.

MR 11/5

Given the level of commitment to this project it would clearly not be practicable to pull out now. But taking this project and the superthermal power station together, our risk in this market will be at least £2.5 billion. Such a figure cannot be supported on the basis of a realistic consideration of the prospects for the Indian economy. Thus winning the contracts for the steel plant and the superthermal power station or either of them will rule out the possibility of taking on any further business in this market until there has been a significant improvement in the Indian economy.

I hope that it will be possible to clinch this business without offering capitalisation of precommissioning interest. It would in principle be undesirable to offer this concession particularly as we have tried so hard to avoid it in other markets. However since no finance is being given for local costs on this project the offer of capitalisation as a last resort is acceptable though there could be no question of doing this on the superthermal power station where some local costs are being financed.

The amount of subsidies being given in support of this project, both in cash terms and in proportion to the UK content are massive. So much so that we can hardly claim that winning the business was an indication of the competitiveness of British industry; indeed it is little short of a financial disaster.



I am sending copies of this letter to the Prime Minister and other Members of EX Committee and to Kenneth Baker, Douglas Hurd and Neil Marten.

yours sincerely

Leon

LEON BRITTAN

/ Approved by the Chief Secretary  
and signed in his absence\_7



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10 DOWNING STREET

*From the Private Secretary*

10 May, 1982

INDIA: ORISSA STEEL PLANT

The Prime Minister has seen Mr Rees' minute of 7 May recommending that we should offer further concessions if necessary in the last resort to secure signature of the contract between Davy and the Indian Government.

As you were told orally over the weekend, the Prime Minister is content subject to the views of EX colleagues that the concessions in sub-paragraphs a and b of Mr Rees' minute may be offered if necessary and also that export credit cover for the increased UK content may be confirmed.

I am sending a copy of this letter to the Private Secretaries to the members of EX Committee and to Neil McMillan (Department of Industry), Stephen Lamport (FCO), Michael Power (ODA) and Terry Mathews (HM Treasury).

A.Y. COLES

Nicholas McInnes, Esq  
Department of Trade

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CONFIDENTIAL





10 DOWNING STREET

John

by letter

I have informed Mr. Hayes ~  
(Mr. Lees: APS) of the  
PM's agreement

Ma

9/5  
2045 hrs.





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Prime Minister

The Dept. of Trade would be grateful for your views in the course of the weekend if possible.

2. Subject to views of EX colleagues, agree to (a) and (b) below and increased ECGD liability as at X overleaf?

PRIME MINISTER

INDIA: ORISSA STEEL PLANT

A.S.C. 7/5

Yes Mr.

The negotiations between Davy and the Indian Government on this project, which have to be finalised by 15 May, have now reached a critical point. Serious difficulties remain over the price for the project. Davy have made it clear that they would still be able to build the plant specified at the time of the letter of intent in September 1981 at the price then offered, ie \$2554m. However, since then the Indians have made major changes in the plant specifications, most importantly asking for a much larger and more expensive rolling mill. Davy's price has as a result increased to just over \$3,000m.

The Indians have difficulties in confronting their Ministers with such a large increase attributable to their own changes in specification, and are arguing that the adjustment should be much smaller; there is currently a difference between the two sides of approximately \$400m. Davy see no way of their bridging such a gap: their cost increases are real and they have little negotiating margin left - at most about \$40m. Efforts are continuing to try and narrow the gap, but it is doubtful whether final agreement can be reached without some further gesture from HMG.

As a result of the enhanced specification and the transfer of the power plant from France, UK content has increased substantially, from about £580m to £780m. This will bring additional very welcome orders and employment mainly in areas of above average unemployment. Because UK content has risen, the subsidy value of the aid and other finance we have offered so far has fallen significantly; we could, within the subsidy levels earlier envisaged, offer further concessions if needed in the last resort to secure contract signature:

- (a) By far the most significant concession we can offer is capitalization of pre-commissioning interest on the export credit loan. This would be worth about \$55m to India and has other advantages for the Indians: it could well be a critical factor in overcoming current difficulties.
- (b) So far we have only offered £10m of the £20m agreed by Ministers to meet the shortfall on the French credit mixte. The Indians have now said that this is insufficient, and that they will not accept RTA to top it up, as was envisaged when Ministers previously considered this. I would recommend that we give the High Commissioner discretion to offer the full extra £10m if it seemed appropriate as a final gesture to secure agreement.

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It will also be necessary to confirm export credit cover for the increased UK content. This will mean a major uplift in ECGD's Section 2 maximum liability for India, if support is also to be maintained for the super thermal power station (and associated coalmine). At present ECGD's liability for the 2 projects, together with existing firm business, totals £1,750m. The increase now needed for Orissa will raise this overall liability to some £2,450m. This does not allow for any increase which might be needed if the Indians want to propose alterations to the specifications for the power station, or to cover any new Section 2 business. In addition ECGD have commitments under Section 1 which could give a total ECGD exposure on India of some £3,000m. In my view the exposure on Orissa and the power station has to be faced; the political commitment to increased trade and co-operation reflected in these projects and other prospective business has to be backed up by willingness to provide the necessary credit; if not, others will step in. This will however have implications for ECGD's ability to continue to provide support for future Indian business which will have to be the subject of further discussions and submissions.

Negotiations in India are reaching a climax, as the project has to be referred to the Indian Cabinet in time for a decision by 15 May which is the crucial date if the old Consensus interest rate of 7½% is to be maintained. I would like to authorise our High Commissioner as soon as possible to make offers as set out above, if he needs to in order to secure final agreement.

I attach a note setting out the background and implications in more detail.

I am copying this to the members of EX Committee and to Kenneth Baker, Douglas Hurd, Neil Marten and Leon Brittain.

PETER REES  
7 May 1982

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## INDIA: ORISSA STEEL PLANT

Background

1. Agreement has now been reached on the major part of the contract which must be signed by 15 May to enable the Indians to benefit from the old interest rate of  $7\frac{3}{4}\%$ . However some serious difficulties remain over Davy's price for the project. Davy state that they would still be able to build the plant specified at the time of the letter of intent in September 1981 at the original price i.e. \$2554 million. However because the Indians have made major changes in the plant specifications since that date: most importantly changing a major part of the output from light sections to medium sections thereby requiring a heavier and more complex rolling mill; increasing the capacity of the rod mill; and introducing a number of improvements which are largely non essential adjustments, Davy's price has as a result increased to a total of \$3057 million.

2. The Indians do not at present accept that increase in Davy's price. In their view there is at present a price gap of \$400 million for which the responsibility for bridging falls to Davy. Davy maintain that the Indians have still not quantified the specification changes and the price gap, in detail, and believe that if this were done the differences between the two sides would be much smaller. However, efforts to reduce the difference by detailed discussion have not met with success so far.

Export Credit Cover

3. On the basis of Davy's revised prices, UK content has now risen to £780 million, from about £580m, as a result of changes in the specification and transfer of the power station from France to the UK. This is clearly welcome insofar as it brings more valuable business and employment to the UK. However the increased UK content also raises certain problems. There is a possibility that the very large increase in the UK content without a corresponding increase in the concessionality of the finance could bring the UK into contravention of the OECD's rules on mixed credits unless aid is increased. More importantly it creates the need for a substantially greater quantum of export credits. The final figure depends, of course, on the outcome of the negotiations, but at most ECGD's maximum liability (which includes cumulated interest) could rise to over £1,600m, from the present reserved figure of £900m. This presents a major issue in relation to the ECGD Section 2 limit for India, especially in view of the other substantial Indian business presently in the pipeline such as the super thermal power station.

4. ECGD's liability for the steel plant, the super thermal power station and other existing commitments would increase from £1750m to £2450m. Consideration is also being given to increasing the Section 1 limit for India from £200m to £500m. ECGD's total potential exposure under Sections 1 and 2, without allowing for any further section 2 business, could therefore be £3000m making India the UK's largest exposure market. No new problems have emerged in India since the existing section 2 limit of £1800m was agreed in February but much of the future hinges on India's success in the oil sector, its ability to control the





uptake of new commercial debt against a declining aid programme and to develop industry to bring about a reversal of the massive Trade and current account imbalances of recent years. Against this background, the increases outlined above, in ECGD's view, go beyond what they regard as a prudent level of commitment. If ECGD support is to be maintained for these projects at the revised figures, Ministerial instruction to this effect will be required.

5. The question of further Section 2 cover will also need to be considered in the light of decisions taken on these projects. This will be the subject of further discussions. Pending this review no further Section 2 commitments will be entered into. The potential level of Section 2 commitment implied by a decision to increase the level for the steel plant will also need to be drawn to the attention of ECGD's Advisory Council when it is asked to consider an increase in the Section 1 limit. The Council has already expressed concern about how far they can endorse cover under Section 1 in view of the liabilities building up under Section 2.

#### Other HMG Assistance

6. In view of the magnitude of the price difference outlined above, the value of injecting into the project further limited amounts of aid of the orders of magnitude which might be available is clearly limited. The only assistance of substance which HMG could offer at this stage would be the capitalisation of pre-commissioning interest on the UK content, which was formally requested by Davy last week. This would have a number of advantages for the Indians: the value in net present value terms is some \$55m, it substantially improves the viability of the project because no requirement to pay interest arises until the plant is complete, and it would substantially reduce the quantum of eurocurrency borrowing required for the project. If France and Germany were also prepared to offer capitalization on their parts of the project the value would be greater, and this possibility is being pursued urgently by Davy. It is more likely that they will agree to this if HMG takes the lead. Capitalization would also be beneficial in relation to the financial return and balance of payments impact of the project as measured in the ODA's developmental appraisal. On the other hand, it would further increase ECGD's maximum liability for the project, by about £100m.

7. As regards additional aid, the question of compensating the Indians for the shortfall in the French credit mixte has also not yet been fully resolved. Ministers will recall that they agreed that up to £20m additional UK aid could be offered to the Indians following the reduction in the French offer. Initially, we offered £10m; the Indians have now requested an additional \$14m of aid which in their view is necessary if they are to receive full compensation. They have stated that this should be aid additional to the £110m already offered, and that RTA local cost aid would not be acceptable. We have some sympathy with their arguments, and would suggest that this could appropriately be conceded as part of a final agreement. ODA has confirmed that it had already reserved sufficient resources to cover up to £10m of additional aid.

8. On the basis of UK content of £780m, at the current aid level, the effect of capitalization would be to raise the subsidy element from 40.41% to 43.06% (47.11% to 49.76% if RTA aid is taken into account). If up to £10m additional aid is conceded the maximum subsidy would rise





from 41.76% to 44.41% if capitalization is agreed (from 48.45% to 51.1% if RTA is included). Because of the increase in UK content, the maximum subsidy would be lower than at one time envisaged and agreed by Ministers, even taking into account the additional concessions of capitalization of precommissioning interest (NB: No allowance has been made in these figures for the value of the Industry Act guarantee to be offered in relation to interest during construction, as the amount to be paid cannot by its nature be predetermined. But if the £20m maximum guarantee envisaged were fully called, this would add 2.68 percentage points to the subsidy.)

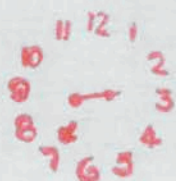
#### Davy's Position

9. We have no doubt that Davy has little negotiating margin left, and that there is no question of Davy having used the specification changes as a means to boost their margins. Throughout the negotiation their German competitor, Demag, has been active on the sidelines awaiting any opportunity to re-enter the race, so strong competitive pressure on Davy continues to be exerted. It should also be noted that the ODA's consultants for the developmental appraisal, W S Atkins, were satisfied that the plant, on the basis of the revised specification, was realistically priced. The Department of Industry's Industrial Development Unit is also conducting an urgent review of Davy's price to confirm Davy assurances on this point.

Projects and Export Policy Division  
Department of Trade  
6 May 1982



7 MAY 1982







file  
Trade  
BR

10 DOWNING STREET

*From the Private Secretary*

30 April 1982

Christopher Benjamin sent me on 28 April a short note about the current position on the Indian Steel Plant in case the Prime Minister was able to speak to Sir John Buckley during her lunch for the Prime Minister of Thailand on that day.

This is simply to record that no opportunity for discussion arose.

A. J. COLES

John Rhodes, Esq.,  
Department of Trade

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CONFIDENTIAL

Under Secretary - Projects and Export Policy Division



DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

Telephone Direct Line 01-215 5701  
Switchboard 01-215 7877

28 April 1982

John Coles Esq  
10 Downing Street  
London SW1

*Dear Sir,*

We spoke about the possibility of the Prime Minister having a word with Sir John Buckley - attached is the short note requested.

*Yours,  
C B*

C B BENJAMIN





## INDIAN STEEL PLANT - CURRENT POSITION

### LINE TO TAKE

Whilst recognising the negotiating dilemma of Davy, if opportunity offers Sir John Buckley should have stressed on him the extreme importance of handling the Indians, and care should be to meet presentationally their wishes whilst allowing Davy a way around later.

### BACKGROUND

The crucial stage has been reached on price negotiations, which must be completed by 15 May. Agreement achieved on the major part of the contract, problems in financing arrangements largely resolved, and some aspects on which GOI attach importance conceded, eg role of their own steel consultants, Davy's taking full turnkey responsibility. Davy and their subcontractors have put in a major effort, with some 100 staff in Delhi.

Outstanding points remain:

- (a) Price: Davy's basic negotiating position is that they are prepared to build the original plant specified at the time of the letter of intent in September 1981 at the price then agreed. But the Indians have subsequently made major changes - notably, the mill is virtually a new entity, and they have sought a range of specification improvements, most of them non-essential adjustments. In addition, the site has been changed. The net result has been an increase in the total price of \$2554 million in September 1981 to a current total of \$3057 million - the bulk of the increase would, however, be in UK goods and services.

The Indians have, however, complained that this figure is well above the value on which they originally gained Cabinet approval, and are particularly concerned at the prospect of confronting their own Ministers on such a substantial increase being largely attributable to their adjustments. Negotiations are proceeding, and Davy is breaking down the increase in costs in further detail in the hope of bringing the Indians closer - assuming this can be done, the area of difference will be less than 5%, though in a contract of this magnitude this is still a large sum in itself.





- (b) Local Costs: the new location was decided 8 weeks ago, since when no site examination has been possible. Davy are willing to take on the local erection and commissioning, but argue that they cannot currently put forward a fixed-price. The Indians are arguing that their unwillingness to provide such a fixed price, and one lower than the original estimate for local costs, is undermining the concept of a "fixed-price turnkey bid".
- (c) French Element: We have still not put the subsidy make-up for taking over the power station from the French, and the Indians are arguing that a further small element of aid may be needed to restore the financing picture.

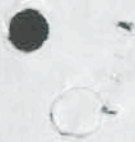
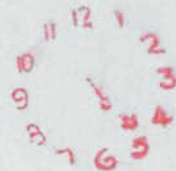
It is conceivable that further concessions may be sought by the Indians to restore the subsidy element of the new total to that of the original package. We have deliberately not, therefore, become sandwiched in the price negotiations, and are holding back any further discussions on (c) until we can see more clearly what the final differences may be.

SP is out of the country at the moment, but apparently remains confident.

PEP Division  
Department of Trade  
28 April 1982



28 APR 1982







Trade (2)

Prime Minister

A.J.C. 11.3

Treasury Chambers, Parliament Street, SW1P 3AG

J Rhodes Esq Private Secretary to  
Rt Hon John Biffen MP  
Secretary of State  
Department of Trade  
1 Victoria Street  
London SW1H 0ET

11 March 1982

Dear John,

A.J.C. 12.3

f-a

INDIA: ORISSA STEEL PLANT

The Chief Secretary has seen your letter of 3 March to John Coles and his reply of 4 March.

The Chief Secretary was surprised to see that a further £15m had been offered - £5m more than previously agreed - without consultation with the Treasury. The Treasury stands ready to act very swiftly in such cases and he hopes that the proper procedures will be followed in future.

On the substance of the matter the Chief Secretary accepts that we should not put the project in jeopardy, particularly since the changes made by the French make an additional £63m worth of business available for UK procurement. He understands that your Department and the ODA are confident that the provisos in my letter of 25 February can be met, and on that basis he agrees to a further aid grant of up to £20m as proposed.

I am copying this letter to the recipients of yours.

Yours sincerely  
Terry Mathews

T F MATHEWS

Private Secretary



CONFIDENTIAL



For  
Trade

10 DOWNING STREET

*From the Private Secretary*

4 March 1982

INDIA: ORISSA STEEL PLANT

The Prime Minister has seen your letter of 3 March. She has commented that it is not worth putting a contract of this size in jeopardy for £5 million and that it would therefore be better to offer a further £20 million of grant aid, rather than the £15 million proposed in your letter.

I am sending a copy of this letter to John Holmes (Foreign and Commonwealth Office), Mike Power (Overseas Development Administration), Peter Jenkins (HM Treasury) and Jonathan Spencer (Department of Industry).

A.J. COLE

John Rhodes, Esq.,  
Department of Trade.

SR

CONFIDENTIAL



CONFIDENTIAL

From the Secretary of State

John Coles Esq  
Private Secretary  
10 Downing Street  
London SW1

Dear John,

Prime Minister  
To note, pending Indian  
reaction to X.

It is not worth A.J.C. 3.  
pulling a contract of this  
size in, especially  
for £5m. It  
3 March 1982  
would be better to  
offer £20m. Not

## INDIA: ORISSA STEEL PLANT: FRENCH AID SHORTFALL

Following my letter of 11 February, I am writing to let you know that we have now received the French Government's formal response to my Secretary of State's request that they make good the shortfall on the financing originally offered by the French companies in the Davy consortium, or accept a reduction in French content.

The French have agreed to the latter option, confirming their offer of a credit mixte of FF1600 million (approximately £145m), but no longer insisting that the original French content of FF2300m (approximately £209m) remain unaffected. They have specified the items of equipment to which their offer is linked, releasing FF700 million (approximately £63m) of power plant equipment for procurement elsewhere. However, they have laid down as a condition for this offer that any soft finance package made available for the power plant contract must be confirmed as equivalent in concessional terms to the French credit mixte. While we have said in response that it is for the Indian Government to decide what would be acceptable, this condition, which has already been transmitted to Delhi, has put the Indian Government in an extremely strong position to press us to make good the French shortfall fully.

As you will recall from my previous letter the Indians are likely to see this as requiring a further £23m of grant aid. The High Commissioner's view is that to be certain of satisfying the Indians we now need to offer a further £20m. Our view after a further careful examination of the figures is that a case can be made to the Indians that a further £15m, together with export credits on the released French content, would be sufficient, because the French offer is less generous in its terms, as well as its size, than was originally understood. We would again try to persuade the Government of India to accept about half of this as RTA local cost aid from within the bilateral programme. In return we would obtain some £63m of additional UK business. I understand that such an offer could be accommodated within the existing aid programme.

It is clearly important to resolve this matter as quickly as possible, particularly with Mrs Gandhi's visit in prospect. We have therefore asked the High Commissioner to put this proposal to the Indians at the earliest opportunity. There is, however, a real risk that they may not be willing to accept that £15m is sufficient in view of

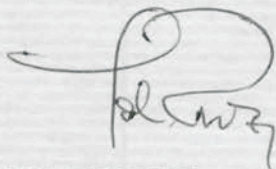




*From the Secretary of State*

their original expectations on the basis of which their decision to award the contract to the Davy consortium was taken. In that case my Secretary of State considers that we should be prepared to offer £20m, as recommended by the High Commissioner, in order to bring the matter to a conclusion.

Copies of this letter go to John Holmes (FCO), Mike Power (ODA), Peter Jenkins (Treasury) and Jonathan Spencer (Industry).

*Yours sincerely,*  


JOHN RHODES  
Private Secretary



11 MAR 1984



FILE SW

✓cc Ind  
Reas  
Overseas Dev  
FCO

16 February, 1982

India: Orissa Steel Plant

Thank you for your letter of 11 February.  
The Prime Minister has considered its contents  
and has commented:

"We must keep this contract. We  
should first approach Jobert and  
tell him that if there is any  
difficulty, I will deal direct  
with President Mitterrand. If  
we obtain no satisfaction, we  
will take the power plant here".

I am copying this letter to the  
recipients of your letter.

A. J. COLES

Jonathan Rees, Esq.,  
Department of Trade

SR





10 DOWNING STREET

Prime Minister

Indian Steel Plant

In case you find the figures in the attached letter as confusing as I did:-

£32 million is the difference between the original French soft loan offer and their final offer - i.e. it is the difference which now has to be made up.

£23 million is the equivalent in UK aid grant terms of £32 million of French soft loans.

£10 million is the extra aid which we believe will be necessary to induce the Indians to go ahead (i.e. we think they will not insist on the full £23 million).

2. Content with Mr. Biffen's proposals?

A.J.C.  $\frac{15}{2}$





Trade  
JRP  
8

10 DOWNING STREET

*From the Private Secretary*

12 February 1982

You may have seen my letter of 18 January to John Rhodes.

I have since seen your letter of 5 February to Mike Pattison containing the second EX(O) Report to the Prime Minister on major civil overseas contracts (it would be helpful if later reports in this series could be sent to me direct). You say in your letter that you will provide a separate report on the Orissa steel plant. I should be grateful if this could now be made available very quickly. Since my letter of 18 January requesting information about the present situation, the Prime Minister has received a good deal of detail from a private source. It seems desirable that she should have a full and up-to-date account from the Department of Trade without delay.

I am sending a copy of this letter to John Holmes (Foreign and Commonwealth Office).

A. J. COLES

Nicholas McInnes, Esq.,  
Department of Trade.





We must keep this  
constant.

From the Secretary of State

Frank - go for J. L. and tell him if there is any difficulty that I will deal direct

11th February 1982

with D. Rutter and

If no solution - we will take the power plant here

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John Coles Esq  
Private Secretary  
10 Downing Street  
London, SW1

Dear John,

INDIA: ORISSA STEEL PLANT: FRENCH AID SHORTFALL

As promised in Nick McInnes' letter of 5 February to Mike Pattison, I am writing to give you a progress report on the Orissa steel plant.

In view of the length of this letter, it might be helpful if I summarise the main points:-

- 1 There is a shortfall of about £32m in the amount of aid (soft loans) which the French authorities are now willing to offer compared with that originally promised by the French companies involved in the Davy consortium.
- 2 The Indian government, though pre-disposed towards the Davy bid, wish this shortfall to be made up. If it is not, it is possible that Davy's rivals (Demag) would be allowed to make a successful counter bid.
- 3 My Secretary of State therefore proposes that:-
  - (i) we seek to persuade the French authorities to make good the £32m shortfall or accept a reduction in French content;
  - (ii) if the French refuse to increase the amount of soft loans, the United Kingdom be prepared to offer a further £10 m of grant aid to the Indian government with the hope that £5m might come from the existing bilateral aid programme. This would result in an extra £50-60m of business for United Kingdom companies.
- 4 My Secretary of State therefore seeks colleagues' agreement to the above proposals.

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*From the Secretary of State*

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Background

105 The United Kingdom led (Davy) bid for this £1.2 billion project - where the United Kingdom content is now £600m - included a major French component (comprising all the high technology electrical equipment and coke ovens) amounting to £210m (F Francs 2.3 billion). This French component had been included from 1979 onwards despite the strenuous protests of GEC and Babcocks, because the French were offering export credits and aid; at that stage we were not prepared to offer more of either. At the stage the final bids went in, the French companies confirmed that the (French) soft loans would amount to £105m (F Francs 1.15 billion) which is equivalent grant aid of about £73m.

Recent developments

44 At the end of last year (subsequent to the award of the letter of intent) the French authorities indicated to the Government of India (GoI) that no more than £44m (F Francs 450m) of soft loans would be available - ie a shortfall of 700m F Francs on soft loans. The GoI made it clear to Davy, and ourselves and the French that the financial package of the Davy bid was a crucial factor in the decision to award the letter of intent. The shortfall in French soft finance would therefore throw in question the letter of intent.

We put pressure on the French authorities to increase their aid offer, and in the course of negotiation, including a review of the historical sequence, the French officials admitted that the French companies had not sought or received authority (from the French government) for the size of the aid package which they put forward to Davy, and that there were severe financial constraints. They however recognised that the fault lay with the French side as a whole and agreed to return to their Ministers for an increase in aid. They also accepted that to the extent that there was a French soft loan shortfall there would have to be a proportionate reduction in French content.

73 The French have now indicated that they are prepared to increase their soft loan to £73m (F Francs 800m), but on the condition that the French content stays unchanged. They have stated that this is their final offer. The resulting soft loan shortfall is £32m (F Francs 350m) which is equivalent to £23m aid grant under our aid conventions. The GoI has now informed the French that they do not regard this as sufficient. However they have made clear to Davy and ourselves that it is Davy's responsibility to come forward

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*From the Secretary of State*

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with financing proposals which make good the shortfall and, if necessary, change the pattern of sourcing. The GoI has emphasised their strong pre-disposition to continue with the United Kingdom led bid, but is under considerable pressure from Demag (Davy's rivals) and their supporters who are exploiting the situation.

Negotiations between Davy and the Indian authorities have been proceeding satisfactorily on other aspects and their objective is to enter into contractual commitments by 15 May (the export credits deadline). Any delay in resolving this financing problem would not only jeopardise this deadline, but more importantly increase Demag's scope for a successful counter bid.

Objectives and implications

In these circumstances, my Secretary of State considers that our prime objective must be to resolve this problem with the minimum impact on the existing pattern of sourcing and finance. This means attempting to persuade the French authorities to increase their soft loan offer to the figure of £105m originally indicated by the French companies, or, failing that, to ensure that the French accept that the French content should be reduced proportionately by £64m (F Francs 700m). This would enable substitute soft finance to be organised for the equipment released. The French are clearly discomfited by the adverse Indian reaction, and could find this alternative a reasonable way out. The most readily detachable component of the French package is the captive power plant for the steel complex.

If we can persuade the French to give up the power plant, Davy's strong preference would be to source it out of the United Kingdom. This would minimise the delay, and also give a consolation prize to United Kingdom companies - GEC or NEI - who were not included in the United Kingdom proposals. In theory, Davy could also source this power plant from other countries - eg Italy or Romania, but to do so, would involve yet another national supplier and government. The negotiation of financing offers, prices and performance requirements could jeopardise the already complex contract negotiations.

Thus, we need to agree now a fall back position if the French are not prepared to stand by the aid offer indicated by their companies. In such a case, the United Kingdom should be prepared to make good the shortfall on condition that there is a transfer of corresponding work content to the United Kingdom from the French. Without this sanction, we should be unable to negotiate with the French with any effective leverage.

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*From the Secretary of State*

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It is not possible to be definite at this stage on the amount of concessional finance which would be required, since this will depend on subsequent detailed negotiations with the Indians. However, our informal indications are that the GoI recognise that this situation is not of our making, and would seek the minimum necessary to defend the package domestically. For us to make good the shortfall could thus be about half the concessional value of the French aid - ie £10m of grant aid. In addition, the GoI might be disposed to accept about half of this reduced amount (ie about £5m) from RTA local costs aid which comes from the existing bilateral programme and hence is not additional aid. Therefore the genuinely additional aid might be no more than £5m spread over four years. In return we would obtain about £50-£60m of additional United Kingdom business.

The Prime Minister will recall that at the time of writing the letter of intent, we were willing to commit additional aid resources for this project, and my Secretary of State recommends that we should negotiate on this basis. Clearly, if we have to contribute further aid, we should aim to keep any additional contribution to a minimum consistent with securing the project.

Immediate steps

My Secretary of State intends to write to M. Jobert, the French Minister for Trade, to express our concern about the problem and to press the French government to make good their shortfall in the proposed soft loans. Simultaneously, the Secretary of State suggests diplomatic pressure be exerted by our Ambassador in Paris.

Copies of this letter go to John Holmes (FCO), Mike Power (ODA), Peter Jenkins (Treasury) and Jonathan Spencer (Industry).

Yours Sincerely,

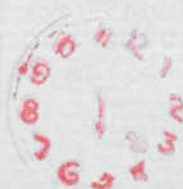
*Jonathan Rees*

J N REES  
Private Secretary

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12 FEB 1982







10 DOWNING STREET

*From the Private Secretary*

18 January 1982

B/F  
The next of the series of quarterly reports on major civil overseas sales prospects will doubtless be available soon (your letter of 22 October to Michael Alexander refers).

I think it would be helpful if the report could deal in some detail with the present situation regarding the ORISSA steel plant contract in India. I say this both because of recent telegrams (e.g. Delhi tel. no. Creda 11) suggesting that all is not well and because, as you know, the Prime Minister will be receiving Mrs. Gandhi in London in about two months' time.

I am copying this letter to Roderic Lyne (Foreign and Commonwealth Office).

A.J. COLES

John Rhodes Esq  
Department of Trade



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FM DELHI 110800Z JAN 82

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TO IMMEDIATE DOT

TELEGRAM NUMBER CRED 11 OF 11 JANUARY.

INFO ROUTINE FCO, ODA, MANILA (FOR BENJAMIN).

FOR MATHRANI (PEP): ORISSA STEEL PLANT

1. I AM BEGINNING TO HEAR DISQUIETING NOISES ABOUT WHETHER THE INDIANS WILL GO AHEAD WITH THE PROJECT. AT PRESENT I DO NOT THINK THERE IS A SERIOUS QUESTION BUT THAT THEY WILL. HOWEVER, NO OVERT PROGRESS HAS BEEN MADE SINCE SEPTEMBER. SEMICOLON THERE ARE MANY RUMOURS THAT THE PROJECT IS IN TROUBLE, ESPECIALLY BECAUSE OF THE FRENCH LOAN POSITION SEMICOLON THERE ARE PRESS REPORTS OF WORLD BANK OPPOSITION TO INDIA INCREASING HER STEEL MAKING CAPACITY AT PRESENT AND ALSO OF A DECLINING DEMAND FOR STEEL IN INDIA SEMICOLON AND IT APPEARS THAT DEMAG HAVE NOT YET GIVEN UP AND ARE PRESSING THEIR CASE FORCEFULLY AND REPEATEDLY. AT PRESENT DEMAG ARE BEING HELD AT ARM'S LENGTH WITH SUGGESTIONS THAT THEY WILL GET THE VIJAYANAGAR PLANT, BUT EVERYBODY IN THE KNOW IS AWARE THAT THIS PLANT STANDS NO CHANCE OF RECEIVING GOVERNMENT OF INDIA APPROVAL FOR A CONSIDERABLE TIME TO COME. THIS MUST SOON BECOME APPARENT TO THE GERMANS IF IT HAS NOT DONE SO ALREADY, AND WHEN THIS HAPPENS THEIR ATTACK ON THE AWARD OF THE ORISSA CONTRACT TO DAVY IS LIKELY TO INTENSIFY.

2. FOR ALL THESE REASONS, TO SAY NOTHING OF CONSENSUS RATES AND AID REQUIREMENTS, I BELIEVE IT IS IMPORTANT THAT WE SHOULD GET SOMETHING SIGNED VERY SOON EVEN IF IT IS NOT A MAJOR PART OF THE WHOLE AND EVEN IF IT LATER HAS TO BE AMENDED. I WOULD LIKE TO HAVE SOMETHING SIGNED THIS MONTH - AND SO WOULD PRANAB MUKHERJEE, MINISTER OF STEEL - BUT I REGARD IT AS NEARLY ESSENTIAL THAT AT LEAST ONE AGREEMENT OR MOU SHOULD BE SIGNED BEFORE THE INDIAN PARLIAMENT REASSEMBLES TOWARDS THE END OF FEBRUARY. I HOPE THAT WHEN CHERRETT RETURNS HERE LATER THIS WEEK, HE WILL BE PRIMED TO TELL ME WHAT CAN BE DONE AND WHAT IF ANYTHING ARE THE DIFFICULTIES (AND PLEASE SEE OUR CRED 9). I DO NOT THINK WE WOULD ENCOUNTER SIGNIFICANT DIFFICULTIES AT MINISTERIAL LEVEL HERE.

THOMSON

MINIMAL  
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ERD  
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