

RECORD OF PLENARY TALKS BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF INDIA AT NOON ON MONDAY 22 MARCH, AT 10 DOWNING STREET.

Present:

- |                                  |                                |
|----------------------------------|--------------------------------|
| Prime Minister                   | Mrs Gandhi                     |
| Foreign & Commonwealth Secretary | Dr. P.C. Alexander             |
| The Rt. Hon. Douglas Hurd, MP    | Mr. R.L. Malhotra              |
| Sir John Thomson                 | Mr. H.Y. Sharda Prasad         |
| Sir Peter Preston                | The High Commissioner of India |
| Mr. R. Wade-Gery                 | Mr. Johari                     |
| Mr. Caines                       | Mr. K.K.S. Rana                |
| Mr. A.J. Coles                   | Mr. Shiraranan                 |
| Mr. B. Ingham                    | Mr. M. Prasad                  |

\* \* \* \* \*

The Prime Minister said that during her tete-a-tete conversation with Mrs Gandhi there had been discussion of the internal situation in India, development problems and East/West relations. They had also touched on the problem of the sixth replenishment of the IDA. She asked for a resume of the issues which officials had been discussing in parallel.

Mr. Hurd said that officials had also discussed the IDA question. The Indian team had raised trade issues and the United Kingdom side had brought up defence sales matters. But the bulk of the time had been devoted to discussion of the level of the British aid programme which, in Indian minds, was linked with the possible award of a contract to British industry for a Thermal Power Station. The Indians had explained that if they were not to follow the normal process of open tender they would need to be able publicly to justify this action by pointing to good financial arrangements for the project and an improvement in the general level of aid to India. The British side had explained the difficulties. Much as we might wish to give priority to bilateral aid, our multi-lateral commitments limited the room for manoeuvre.

Dr. Alexander said that the level of UK aid was steadily deteriorating. Moreover, in the case of India the approach adopted

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towards RTA had differed from that pursued in other countries. The Indians felt that the time had come to improve on the levels of aid which had obtained in the last two years. With regard to the Thermal Power Station contract, the Indian Public Accounts Committee would be bound to question the Indian Government on several aspects. It would be helpful if they were able to point to a favourable financing package and an improvement in the aid programme. Sir Peter Preston pointed out that in 1980/81 a record aid figure of £140 million had been disbursed. Lord Carrington drew attention to the fact that almost 20% of our total bilateral aid went to India. The Prime Minister said that we would take another look at the matter. Mr. Malhotra then explained the background to the present problem over RTA assistance. It had been agreed in 1978/79 that RTA would be an additional commitment. It had subsequently been merged with other assistance within a rapidly declining ceiling. The result had been a disproportionate cut in the aid programme to India. Sir Peter Preston explained that our total aid programme for next year was now fixed. There was a question of priorities within it. The Prime Minister asked whether there was not a certain sum available for contingencies. Lord Carrington replied that there was but that it was not wise to draw on this provision early in the year.

The Prime Minister said that she was most interested in the Thermal Power Station contract. She had recently visited NEI which was clearly the most modern boiler-making plant in Europe. What stage had been reached in the negotiations? Dr. Alexander said that the Indian side wished to commence negotiations but they needed to be able to justify not going out to tender. Mr. Hurd pointed out that after 15 May the interest rates on which our present financial offer was based would rise. It was important to reach some agreement before then. Dr. Alexander said that subject to a satisfactory agreement on aid and the final decision by Mrs Gandhi, the negotiations could be completed in that time. Mr. Caines said that certain technical and financial proposals had recently elicited an Indian reaction.

As to IDA replenishment, Dr. Alexander said that India was under great pressure. Whatever the final American decision, aid

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/ from this source

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from this source for India had already been cut from \$1600 million to \$800 million. He therefore felt that the United Kingdom, while maintaining its pressure on the United States, should maintain its commitments to the IDA. He had reasonable ground to believe that other major donors would follow suit. Lord Carrington said that the basic question was whether, by not going ahead with our payments, we were in fact putting pressure on the United States. Sir Peter Preston pointed out that a change in position would have implications for future IDA replenishments. Mr. Hurd said that this process would become more difficult if burden sharing was abandoned.

Mr. Malhotra said that it was virtually certain that the United States would meet their obligations in the end. But meanwhile considerable disruption was being caused in the development programmes of third world countries. This was the justification for departing from the proportionality arrangements and it could well be argued that such a departure would put greater pressure on the United States. The Prime Minister said that her first impression was that this argument had merit. We would consider the matter and consult the other aid donors most closely concerned. It would be for the Foreign and Commonwealth Office to do this.

Dr. Alexander then raised the problem of the growing imbalance in Indo/British trade. India did not expect there to be a balance in each year. But textile exports, which represented 23% of India's total exports to the UK, were particularly important. Within that area there was a problem over hand-loom products which provided employment for 12 million Indians, mainly in rural areas. In the last few months the United Kingdom had imposed severe restrictions on these products. Indian traders felt that we had been harsh. There was no question of such trade causing disruption. The Indian share of the total textile market in the United Kingdom was about 2%. He was therefore seeking some sympathy towards the Indian textile trade for this was the only area in which there was growth potential. The feeling was gaining ground that new restrictions had been invoked against textiles in order that the bilateral agreement to be negotiated under the Multi-Fibre Arrangement should cover more items than before.

/ The Prime Minister

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The Prime Minister asked what the figures were for recent increases in the import of folkloric garments from India. Mr. Caines explained that the figure for ladies suits had gone up from 250,000 in 1979 to 800,000 in 1981. In another category of ladies garments, a similar rise from 127,000 to 408,000 had been experienced. The Prime Minister commented that she had recently heard of two consignments, allegedly of hand-loom products, which had clearly never been near a hand-loom. This sort of thing undermined confidence and could do harm in the heart of our textile industry where 200,000 jobs had been lost in the last 2 years.

Mr. Caines pointed out that Indian quotas on a number of items had been substantially under-utilised. Dr. Alexander commented that the quotas in question had been fixed without reference to industrial capacity in India. Sir John Thomson said that he was not convinced that Indian efforts to sell to the United Kingdom were very effective. It was not clear why India did not make a greater effort to produce textiles covered by the unfulfilled quotas. Moreover, there were good prospects for exports in the engineering field and in computer software. He had been surprised earlier to hear that the Indians had cancelled the trade fair which was to have been held at the time of the Festival of India but was now glad to hear that it was being restored. The United Kingdom had provided financial assistance for Indian marketing efforts but the sums had not been spent.

Dr. Alexander said that he was not asking that our customs authorities should permit subterfuge but he did hope that HMG would take a broad view and show sympathy with India's exporting problems. For example, he had heard that a consignment of textiles worth £55,000 was still held by the authorities. Mr. Caines explained that these were not hand-loom products. Dr. Alexander observed that the Indian importers wanted the items to be tested. Mr. Caines said that tests had already been carried out and anyone who did not accept the result of the tests was free to challenge them in the courts. Mrs Gandhi suggested that officials should look into the matter separately. India did not wish to bypass our rules and regulations.

A.J.C.

22 March 1982

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India

SUBJECT.



cc. Minister sec.

10 DOWNING STREET

From the Private Secretary

22 March 1982

Dear John,

VISIT OF THE PRIME MINISTER OF INDIA

I enclose a record of the conversation between the Prime Minister and the Prime Minister of India during the plenary session of talks held here between noon and 1300 hours today.

I am copying this letter and enclosure to John Kerr (HM Treasury), John Rhodes (Department of Trade), Jonathan Spencer (Department of Industry) and David Wright (Cabinet Office).

Yours ever

John Cole.

John Holmes, Esq.,  
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

19 March 1982

*Indian side*

*limit to 8 for talks with Hurd*

*" to 7 for PM & Mrs. Gandhi.*

*A.S.C. <sup>21</sup>/<sub>3</sub>*

*h-a -*

*Lord C  
Sir J. Thomson*

*Hurd*

*J. Giffard*

*Becker*

*Caines*

*Defence Sales. x then withdrawn.*

*Revised Tables x then withdrawn.*

*Wade for*

*Dear John,*

Mrs Gandhi's Visit

We have just heard from Sir John Thomson that the Indians would like to have a session of detailed talks, mainly about bilateral economic matters, between 1100 and 1200 hours on Monday 22 March while the Prime Ministers have their tete-a-tete. The attached telno 317 from Delhi gives the background.

Subject to the Prime Minister's views, Mr Hurd would be prepared to chair these talks. The rest of our team would be those listed in your letter to us of 18 March (Mr Giffard, not Mr Donald) minus Lord Carrington who would arrive for the plenary session. It would also be useful for a representative of Defence Sales to attend, since Dr Alexander may well wish to raise defence issues. If the talks could be held at No 10, this would simplify the transition into the plenary session. Please let me know as soon as possible if this is not acceptable so that alternative arrangements can be made.

I am sending copies of this letter to Michael Power (ODA), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

*Yours ever*

*John Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street



MISS STEPHENS

Duty Clerk

10 DOWNING STREET

From the Private Secretary

18 March 1982

MRS. GANDHI'S VISIT: TALKS

As you know, the Prime Minister will hold tete-a-tete talks with Mrs. Gandhi from 11 o'clock to 12 o'clock on 22 March. For the plenary session from 12 o'clock to 1 o'clock the Prime Minister would be grateful if the following would join her:

Foreign Secretary  
Mr. Gifford or Mr. Donald  
Sir Peter Preston (ODA)  
Mr. Caines (DOT)  
Sir John Thomson  
Mr. Wade-Gery

11-00 Mr. D. Hurd  
Gifford: B. Stur  
S. A. Procter  
Caines  
S. Thomson  
M. Byrne

I am sending a copy of this letter to Michael Power (Foreign and Commonwealth Office), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

A. J. COLES

John Holmes, Esq.,  
Foreign and Commonwealth Office.



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Foreign Secretary

1 senior F.I.C.O. official

Sir P. Preston

Mr. Cairnes (DOT)

Sir John Thomson

Mr. Wade-Gery?

Mr. Ingham.



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FROM SAD

*h.a.*  
*ADL 3/3*

YOUR TEL NOS 214 AND 217: MRS GANDHI'S VISIT

1. WE HAVE NOT BEEN ABLE TO CONSULT MINISTERS BUT WE ARE SLIGHTLY APPREHENSIVE AT THIS CLEAR INDICATION OF THE INDIANS' THINKING ON THE FORM OF THE OFFICIAL TALKS. MRS GANDHI IN A TACITURN MOOD CAN BE HEAVY GOING AND TWO HOURS OF HER ON A VIRTUALLY TETE-A-TETE BASIS IS LIKELY TO BE A CONSIDERABLE STRAIN. FURTHERMORE WE REGARD THE TALKS ON 22 MARCH AS PROVIDING AN IMPORTANT OPPORTUNITY FOR SUBSTANTIVE DISCUSSION OF INTERNATIONAL AND OTHER ISSUES. THE PRIME MINISTER HAS DIRECTED THAT ALTHOUGH SHE MAY CONDUCT THE FIRST HOUR OF TALKS ALONE WITH MRS GANDHI SHE WISHES THE SECOND HOUR TO BE IN PLENARY. ON THIS UNDERSTANDING THE SECRETARY OF STATE IS ALSO WILLING TO RE-ARRANGE HIS TRAVEL PROGRAMME TO ENABLE HIM TO ATTEND THE PLENARY SESSION (AND THE LUNCH AT NO 10).

2. IT IS NOT FOR US TO DECIDE WHOM MRS GANDHI SHOULD INCLUDE IN HER PARTY AND IT MAY WELL BE THAT SHE FEELS NO NEED TO BE ACCOMPANIED BY SENIOR MEA OFFICIALS. CLEARLY WE SHOULD NOT PUSH TOO HARD ON THIS. WE DO NEVERTHELESS THINK THERE WOULD BE ADVANTAGE IN YOUR INDICATING TO THE INDIANS IN WHATEVER WAY YOU CONSIDER APPROPRIATE THAT IN OUR VIEW THE TALKS ARE AN IMPORTANT FEATURE IN THE VISIT RATHER THAN AN APPENDAGE TO THE CULTURAL EVENTS AND THAT THE PRIME MINISTER WAS THINKING OF INCLUDING A SMALL GROUP OF MINISTERS AND OFFICIALS FOR THE SECOND HOUR OF THE DISCUSSION.

CARRINGTON  
NNNN            ::  
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