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India

## 10 DOWNING STREET

From the Private Secretary

25 March 1982

THERMAL POWER STATION FOR INDIA

The Prime Minister held a meeting at 2.00 p.m. on Wednesday 24 March to consider prospects for the Indian thermal power station contract. Those present were the Foreign and Commonwealth Secretary, the Secretary of State for Trade, the Chief Secretary, the Minister of State at the Department of Industry (Mr. Baker), and Sir John Thomson, Sir Peter Preston, Mr. Wade-Gery, Mr. Benjamin and Mr. Beastall.

The meeting concluded that the contract was of major importance, not only for its commercial value but also because of its employment implications, notably in the north-east of England. The position of Northern Engineering Industries might become very difficult if the contract was not secured. The best chance of securing it lay in closing with Mrs. Gandhi's delegation before the end of her current visit to Britain. The Indians seemed ready to settle the matter in principle at the present time; and they were attracted by the financing terms on offer, which would inevitably worsen after OECD consensus interest rates were raised in mid-May. But they needed to be able to defend publicly the decision not to go to international tender. Some concessions would therefore need to be made on the three issues which had been raised at the plenary meeting between the Prime Minister and Mrs. Gandhi.

Sir John Thomson was therefore authorised, in consultation with the Departments concerned, to seek to conclude the current negotiations with the Indians immediately on the basis that, subject to an agreement in principle that the contract would be awarded to Britain, concessions could be offered on the three outstanding issues as follows:

- (i) Britain could agree to waive pro rata limitations on her contributions to the second and (if necessary) third instalments of the International Development Association's sixth replenishment, despite the shortfall in United States' contributions. This concession could if necessary be made even in the absence of comparable movement by other major donors such as France and the Federal Republic of Germany.

/(ii)



- (ii) The contribution from Aid/Trade Provision (ATP) funds to the financing of the contract could be increased from the figure of £51 million already authorised by Ministers to a maximum of £65 million.
  
- (iii) Normal British bilateral aid for India (inclusive of local cost aid in lieu of debt relief and of technical co-operation but exclusive of the tied aid contribution to the coastal steel plant) could be increased from its present planned level of £85 million in 1982/83 and £82.5 million in 1983/84 to £105 million and £110 million respectively. These were cash figures, not subject to upward revaluation. For 1984/85 and 1985/86 the Indians should be offered best endeavours assurances only, with no reference to specific sums; it should be explained to them that those years lay beyond the lifetime of the present Parliament and that aid allocations had not yet been made in respect of them.

In return for these concessions, every effort should be made to secure written indications of Indian willingness to award further major contracts to Britain, particularly in the promising field of port development.

It was accepted that the cost of the concessions at (i) and (ii) above could be met from within existing provisions. As regards (iii) above it was agreed that the cost should not be met by reducing the amount of money earmarked for ATP purposes worldwide. In 1982/83 the extra £20 million involved could be found from within the Aid Programme because of elbow room created by the net effect of rephasing certain payments to multilateral agencies. In 1983/84 the bulk of the extra £27.5 million for India would have to be funded by an overall increase in the size of the Aid Programme, which would need to be agreed in the normal PES process in the light of the present decision; some contribution would also need to be made from the unallocated reserve within the Aid Programme as at present conceived, although the likely pressures on that reserve would preclude finding any large amount by this means.

I am sending copies of this letter to John Rhodes (Department of Trade), Terry Mathews (HM Treasury), Jonathan Spencer (Department of Industry) and David Wright (Cabinet Office).

A. J. COLES

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Foreign and Commonwealth Office.