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From the Secretary of State

Prime Minister

India
 Sir John Thomson was worried about
 the quality of the NEI management
 team working on this contract. I
 therefore asked for this report.

A.F.C. 3/8

John Coles Esq
 Private Secretary
 10 Downing Street
 London SW1

2 August 1982

Dear John,

RIHAND POWER STATION, INDIA

In your letter of 15 July, you asked for a report on the current position on this project, for which a frame contract was signed on 15 May following the Prime Minister's discussions with Mrs Gandhi.

The Department of Trade shares Sir John Thomson's concern, and, as part of the task of securing the contract, we have been applying continuous pressure on NEI to build themselves up to this task.

A strong project team has been the essential step for NEI to change from a manufacturer to a contractor. One of the attractions of our proposals to the Indian Government was the opportunity to absorb the operating practices and procedures of the CEGB; the consultancy wing of the Board, British Electricity International, is being retained by the Indian authority - the National Thermal Power Corporation - as their project consultant. We have, therefore, been keeping an informal eye on the company through BEI as well as through direct contacts. The Permanent Secretary here is, for instance, visiting NEI on 17 August.

Apart from this dual scrutiny of NEI's activities, and contacts with the NTPC and NEI's own staff in Delhi, the following main actions have been undertaken:

(a) Ewbanks, a well known private consultant, has been retained by the Department to provide us with independent advice;

(b) Officials, with Ewbanks, have had a range of discussions with NEI in Newcastle, in London and with NEI's office in Delhi;

(c) CEGB staff have been loaned to NEI for the important initial design stages. More particularly, CEGB have made available a group of specialist planning staff to man a new project office, which has full access to the programmes and design expertise of the CEGB's own design centre;



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(d) Through good relations with China Light and Power in Hong Kong, we have obtained for NEI from CLP an experienced Project manager, Mr Blacklin. Although not taking up his appointment until early next month, he has already set about completing the essential project team, and improving the company's preparations for final contract negotiations.

(e) In addition, the Minister for Trade has met the NEI Chairman, Mr Duncan McDonald, with Robert Wade-Gery. Both stressed the crucial importance of the project, and questioned the company about the main areas where we are still concerned: notably the overall project team, and the manning of the company's office in India.

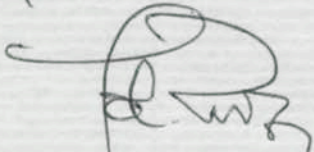
(f) Peter Rees has also himself maintained contacts with the NTPC, having met Mr Kapur, their Technical Director, and Mr Bami, their Finance Director, during their recent visits to this country.

The Department is, through its continuous activity on the project, together with the associated coal-mine, already giving the highest priority to pressing the company to correct the shortcomings that have worried Sir John Thomson and ourselves. We shall continue to do this.

Whilst we will not ease up on the pressures we are bringing to bear on NEI it is worth stressing that the Rihand project is several orders of magnitude bigger, and more complex, than anything that NEI have undertaken before. Underlying our present difficulties is, therefore, the more fundamental issue of whether we are adopting the right policies to establish the essential private-sector capability through investment in the UK: the essential point is why GEC had to undertake their first power station project in Hong Kong, and why NEI their first in India. On this more general theme, we are pursuing discussions with the nationalised industries at various levels.

Meanwhile, NEI have submitted their contract specifications with the aim of signature by the end of September, and most of the potential difficulties on the financing agreement appear to have been resolved in principle.

I am copying this letter to John Holmes (FCO), Jonathan Spencer (DOI) and PS/Mr Hurd.

Yours sincerely,


JOHN RHODES
Private Secretary



FILE

India

RM

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10 DOWNING STREET

From the Private Secretary

15 July. 1982

INDIA: THERMAL POWER STATION CONTRACT

Sir John Thomson briefly mentioned to the Prime Minister yesterday that certain difficulties had arisen in connection with this contract. In particular he was concerned about the quality of management which NEI were fielding.

Given the personal involvement of the Prime Minister in securing this contract and in making certain gestures to the Indian Government in order to bring about that result, I should be grateful for a full report on the present situation which I can show to Mrs Thatcher.

I am copying this letter to John Holmes (Foreign and Commonwealth Office) and Jonathan Spencer (Department of Industry).

A. J. COLES

John Rhodes, Esq
Department of Trade

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