

India

DEPARTMENT OF TRADE

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From the Secretary of State

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Dear John

THE PRIME MINISTER'S MEETING WITH MR RAJIV GANDHI

.... I attach a short brief on the Orissa steel plant project for the Prime Minister's meeting with Mr Gandhi tomorrow, Wednesday 8 September. This brings up to date the briefing provided for the Prime Minister's meeting with the Indian Finance Minister, Mr Mukherjee, on 1 September.

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

Yours sincerely

John Whitlock

JOHN WHITLOCK
Private Secretary



ORISSA STEEL PLANT

Background

The Government of India has indicated that, despite the breakdown in negotiations with Davy for this contract in May, there remains scope for substantial UK involvement in the project on a new basis. Proposals by the UK that the British Steel Corporation might lead a UK offer have found a favourable reaction in India. In addition the Indian Finance Minister, Mr Mukherjee~~es~~ indicated that negotiations might be reopened 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 although she was generally encouraging about the prospects for UK participation.



Line to take

Reiterate HMG's wish to see substantial UK involvement building on the work already done.

There are a number of possible approaches. The UK would be willing to cooperate with the Government of India on its preferred route.



ORISSA STEEL PLANT

Background

1. Negotiations between Davy and the Indian Government for this £1.25bn (UK content £800m) turnkey project broke down in May, and the Letter of Intent given to Davy was withdrawn. Since then we have been working to secure substantial UK participation, if necessary on a new basis. Recent talks with officials have suggested that renewed UK participation would need more Government to Government involvement, with Davy in a less prominent role. We have been developing proposals for the British Steel Corporation to lead a UK offer, with Davy and others supplying equipment; initial reactions in Delhi were promising.

2. However, last week Mr Mukherjee told our High Commissioner that the Indian Government could be prepared to reopen negotiations with Davy for the full turnkey project, as envisaged in May. Mr Wade-Gery has also discussed the possibility with Dr Alexander, Mrs Gandhi's Cabinet Secretary, who did not rule it out. However he also showed interest in the BSC led alternative. In sum there are now clear signs that the Indians would like to go ahead with substantial UK involvement, but on what basis is uncertain.*

3. When negotiations broke down in May, it was made clear that the UK financial package (£120m of special aid, £50m local cost aid and export credits) was no longer on the table. What could be offered in support of either of these approaches has yet to be considered interdepartmentally (some of the special aid has been reallocated to other programmes); but there is little doubt that if the Indians reopened negotiations with Davy they would expect a comprehensive package on similar lines to be made available.

Line to take

1. Regret breakdown of talks in May. Reiterate HMG's wish to see substantial UK involvement, building on work already done by all concerned.
2. Is it possible to reopen the Davy negotiations which broke off in May? If so we would naturally be pleased. But we would equally be willing to work with the Government of India on any alternative basis preferred.

* On the other hand, Bill Rylie spoke to Malhotra, Mr Mukherjee's Permanent Secretary at the Commonwealth Finance Ministers meeting today and discovered that he had not heard of Mr Mukherjee's conversation with the High Commissioner. Malhotra doubted the possibility of a reversal. 75