

India

RR FCO (FOR ODA)

CONFIDENTIAL

29 SEP 1982

GRS 400

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DESKBY 291500Z

FM DELHI 291300Z SEP 82

TO IMMEDIATE DOT

TELEGRAM NUMBER OTTER 110 OF 29 SEPTEMBER.

INFO ROUTINE FCO, ODA.

FOLLOWING FOR BENJAMIN, PEP

MY 3 IMMEDIATELY PRECEDING TELEGRAMS: ORISSA STEEL

THE FOLLOWING IS A DRAFT OF THE LETTER I MIGHT SEND TO ALEXANDER.

BEGINS

(1) MY GOVERNMENT MUCH REGRET THE FAILURE OF THE NEGOTIATIONS IN MAY TO DEVELOP THE PROPOSED STEEL PLANT AT DAITARI, AND RECOGNISE THE IMPORTANCE OF RE-ESTABLISHING MOMENTUM AND REALISING THE POTENTIAL SCOPE FOR COLLABORATION. THEY REMAIN READY TO COOPERATE FULLY IN MAKING AVAILABLE THE RESOURCES OF UK INDUSTRY IN WHATEVER FORM IS MOST SUITED TO THE REQUIREMENTS OF THE GOVERNMENT OF INDIA.

(2) FOLLOWING THE DISCUSSIONS BETWEEN OUR TWO PRIME MINISTERS ON 29 SEPTEMBER, IT IS MY UNDERSTANDING THAT THE GOI DO NOT INTEND TO PROCEED WITH DAITARI ON A TURNKEY BASIS BUT WOULD WELCOME PROPOSALS FROM HMG FOR A NEW APPROACH. THE BRITISH STEEL CORPORATION HAS THE CAPABILITY FOR DESIGN, PROCUREMENT, OPERATION AND TRAINING THROUGH ALL STAGES OF STEEL DEVELOPMENT WHICH IT HAS ESTABLISHED BOTH IN ITS OWN INVESTMENT PROGRAMME AND AS ADVISER TO MANY GOVERNMENT STEEL AUTHORITIES. THE BRITISH STEEL CORPORATION HAVE CONFIRMED THAT THEY ARE VERY WILLING TO MAKE THEIR EXPERIENCE IN ALL THESE FIELDS AVAILABLE TO THE GOI.

(3) I UNDERSTAND THAT ON THIS BASIS A NEGOTIATED CONTRACT COORDINATED BY THE BRITISH STEEL CORPORATION IN CLOSE COLLABORATION WITH MY GOVERNMENT, COVERING THOSE PARTS OF THE PLANT WHICH BRITAIN MAY BE BEST PLACED TO SUPPLY, WOULD BE OF INTEREST TO THE GOI. I CAN CONFIRM THAT MY GOVERNMENT AND THE BSC WOULD BE HAPPY TO PROCEED IN THIS WAY. MY GOVERNMENT WOULD EXPECT TO BE ABLE TO PUT FORWARD AN APPROPRIATE FINANCIAL PACKAGE INCLUDING AID, EXPORT CREDIT AND COMMERCIAL FINANCING.

(4) IF IT IS ACCEPTABLE TO THE GOI, I SUGGEST THAT THE BSC, IN CONSULTATION WITH THE PROJECTS AND EXPORTS POLICY DIVISION OF THE DEPARTMENT OF TRADE AND AFTER AN INITIAL REVIEW WITH GOI AUTHORITIES (INCLUDING MECON), SHOULD PUT TOGETHER A PROPOSAL FOR SUCH A NEGOTIATED CONTRACT, AND THE RELATED FINANCIAL REQUIREMENTS, COVERING THOSE PROCESSES AND ITEMS OF EQUIPMENT WHICH BOTH GOVERNMENTS AGREE MIGHT MOST SUITABLY BE SUPPLIED FROM THE UNITED KINGDOM.

ENDS

2. ALEXANDER'S REPLY NEED ONLY CONFIRM THAT THE APPROACH IN MY LETTER IS ACCEPTABLE TO THE GOI AND THAT THEY AGREE TO MATTERS BEING CARRIED FORWARD AS IN MY (4).

WADE-GERY

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GRS 500
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DESKBY 291500Z
FM DELHI 291245Z SEP 82
TO IMMEDIATE DOT
TELEGRAM NUMBER OTTER 108 OF 29 SEPTEMBER.
INFO ROUTINE FCO, ODA.

28 SEP 1982

FOR BENJAMIN, PEP

MIPT: ORISSA STEEL

1. ALEXANDER MADE THE FOLLOWING POINTS TO ME LAST NIGHT:

(A) HE HAD CHECKED WITH MUKHERJEE THAT THE LATTER WAS NO LONGER PROPOSING A RETURN TO THE ORIGINAL TURNKEY CONCEPT WITH DAVY IN THE LEAD.

(B) HE (ALEXANDER) WAS SURE THIS WAS RIGHT. WHAT WAS WANTED WAS A NEGOTIATED ARRANGEMENT BETWEEN INDIAN AND BRITAIN WITH BSC IN THE LEAD ON OUR SIDE. THIS WOULD USEFULLY IMPART A GOVERNMENTAL FLAVOUR TO THE DEAL.

(C) BSC SHOULD PUT FORWARD PROPOSALS TO SUPPLY, FROM VARIOUS BRITISH SOURCES, THOSE ITEMS OF EQUIPMENT FOR THE DAITARI PROJECT FOR WHICH THEY REGARDED BRITAIN AS FINANCIALLY AND TECHNOLOGICALLY COMPETITIVE. AGREEMENT ON THIS LIST, WHERE POSSIBLE, SHOULD BE REACHED BEFORE INDIA LOOKED TO ANY OTHER POTENTIAL SUPPLIERS. THE LIST SHOULD COVER ONLY BRITISH EQUIPMENT SEMICOLON IT SHOULD NOT ALSO COVER EG FRENCH OR GERMAN ITEMS AS IN THE DAVY PROPOSAL. ONCE IT WAS CLEAR WHAT WOULD NOT BE COMING FROM BRITAIN, THE INDIANS WOULD THEMSELVES ARRANGE TO GET THE REST ELSEWHERE, PROBABLY BY COMPETITIVE TENDER. LOCALS WOULD BE A PURELY INDIAN RESPONSIBILITY.

(D) IN ADDITION TO THE FRENCH AND GERMANS, POTENTIAL SUPPLIERS AT THE SECOND (IE POST-BRITISH) STAGE WOULD INCLUDE THE JAPANESE, WHO WERE NOW SHOWING GREAT INTEREST IN DAITARI AND WOULD BE SENDING A MISSION HERE SHORTLY. ALSO THE RUSSIANS, WHO WERE KEEN TO SUPPLY EQUIPMENT FOR THE FIRST IE IRON-MAKING PART OF THE PROCESS. BUT NO REPEAT NO COMMITMENTS TO THEM HAD BEEN ENTERED INTO DURING MRS GANDHI'S VISIT TO MOSCOW. RUSSIAN TECHNOLOGY WAS NOT MODERN ENOUGH FOR ANY LATER PART OF THE PROCESS SEMICOLON BRITAIN AND GERMANY WERE THE WORLD LEADERS THERE.

(E) BRITISH FIRMS WOULD NO DOUBT BE PARTICULARLY INTERESTED AND WELL QUALIFIED AS REGARDS THE POWER PLANT, THE COKE OVENS AND THE RAW MATERIALS HANDLING EQUIPMENT.

(F) THE NEW BRITISH PROPOSALS WOULD OF COURSE HAVE TO BE ACCOMPANIED (AS DAVY'S HAD BEEN) BY A SUITABLE OFFER OF ADDITIONAL AID.

2. APROPOS OF (D) AND (E) ABOVE, ALEXANDER ASKED IF BRITISH FIRMS WOULD BE INTERESTED IN EQUIPMENT FOR THE IRON-MAKING PROCESS, EG THE BLAST FURNACES. I SAID THAT I THOUGHT THIS LIKELY SEMICOLON AND THAT, AS I UNDERSTOOD IT, THE APPLICATION OF MODERN BRITISH TECHNOLOGY TO THE PLANT WOULD MAKE IT POSSIBLE TO SIMPLIFY AND SHORTEN THE IRON-MAKING PROCESS. SO IT WOULD BE EXTRAVAGANT TO GO RUSSIAN FOR THE FIRST PHASE IF ONE WAS GOING MODERN AND BRITISH FOR THE LATER PHASES. ALEXANDER TOOK NOT.

3. FINALLY, ALEXANDER SAID THAT ALL THIS REPRESENTED HIS OWN THINKING. WHAT MRS THATCHER NEEDED TO DO WAS TO PUT IT (WITHOUT ATTRIBUTION) TO MRS GANDHI AND SECURE THE LATTER'S AGREEMENT. ONCE THAT AGREEMENT HAD BEEN GIVEN, HE AND I WOULD HAVE A FIRM FOUNDATION ON WHICH TO PROCEED SEMICOLON AND HE WOULD BE ABLE TO ISSUE THE NECESSARY DIRECTIVES TO THE REST OF THE INDIAN GOVERNMENTAL MACHINE. WITHOUT MRS GANDHI'S AGREEMENT WE WOULD BE NOWHERE. HE WAS REASONABLY CONFIDENT THAT MRS GANDHI WANTED, FOR POLITICAL REASONS, TO GIVE THE BULK OF THE BUSINESS TO BRITAIN. BUT ONLY MRS THATCHER COULD GET HER TO SAY SO.

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FM DELHI 291220Z SEP

TO IMMEDIATE DOT
TEL NUMBER OTTER 107 OF SEPTEMBER 29
RPTD FOR INFO TO FCO AND ODA.

FOR BENJAMIN, PEP.

ORISSA STEEL.

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f.a.
30/9

29 SEP 1982

1. MY FIRST IFT RECORDS THE STEEL PART OF A PRIVATE TALK I HAD WITH DR ALEXANDER (MRS GANDHI'S PRINCIPAL SECRETARY) AT HIS HOME YESTERDAY EVENING, IN PREPARATION FOR MRS THATCHER'S VISIT SEMI COLON HE HAD RETURNED FROM MOSCOW ON 26 SEPTEMBER. MY SECOND IFT RECORDS DISCUSSION OF STEEL AT MRS GANDHI'S BREAKFAST FOR MRS THATCHER THIS MORNING SEMI COLON ALSO PRESENT WERE ALEXANDER AND FINANCE MINISTER MUKHERJEE ON THE INDIAN SIDE AND COLES AND MYSELF ON OURS.
2. THANKS TO THE PM, WE NOW SEEM WELL PLACED TO SECURE THE MAXIMUM AMOUNT OF ORISSA STEEL ORDERS FOR BRITISH FIRMS UNDER BSC LEADERSHIP. BUT WE MUST FIRST GET THE COMPACT AT GOVERNMENT LEVEL RATIFIED IN THE MANNER AGREED ON THIS MORNING. WE SHOULD CLEARLY DO THIS QUICKLY. MY THIRD IFT CONTAINS A DRAFT EXCHANGE OF LETTERS WHICH IF YOU AGREE I SAHLL SEEK TO NEGOTIATE WITH ALEXANDER AS SOON AS POSSIBLE. THE WAY WILL THEN BE OPEN FOR BSC TO ENTER INTO DETAILED DISCUSSIONS HERE.
3. YOU WILL NOTE THAT ALEXANDER (AND MUKHERJEE) REFERRED TO ITEMS OF EQUIPMENT FROM THE UK. AS I UNDERSTAND IT, BSC WOULD ALSO BE PREPARED TO OFFER ADDITIONAL SERVICES, IN COOPERATION WITH MECON. I HAVE REFERRED OBLIQUELY TO THIS IN THE DRAFT LETTER TO ALEXANDER.
4. MEANWHILE, AS YOU WILL SEE, WE HAVE AGREED TO SOFT PEDAL THE SUBJECT IN PUBLIC. SO FAR, THE INDIANS HAVE STUCK TO THIS, TO JUDGE BY THE BRIEFING WHICH ALEXANDER GAVE AIRPORT JOURNALISTS IN MY PRESENCE JUST AFTER THE PM'S AIRCRAFT LEFT THIS MORNING. HE SAID ONLY THAT, IN ADDITION TO THERIHAND POWER CONTRACT, A RANGE OF BILATERAL ECONOMIC SUBJECTS WAS DISCUSSED INCLUDING STEEL. ASKED IF INDO/BRITISH AGREEMENT HAD BEEN REACHED ON ORISSA STEEL HE REPLIED THAT THE SCOPE FOR COOPERATION IN THIS AREA BETWEEN THE TWO COUNTRIES HAD BEEN DISCUSSED.
5. GRATEFUL FOR URGENT INSTRUCTIONS, AND FOR ADVANCE INDICATION OF WHEN THESE ARE LIKELY TO BE SENT (SO THAT I CAN BE FIXING UP A MEETING WITH ALEXANDER). I HAVE TO BE IN BOMBAY FROM 2 TO 5 OCTOBER WITH THE DUKE OF GLOUCESTER AND IN RAJASTHAN WITH HIM 8/10 OCTOBER.

WADE GERY

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PERSONAL AND 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

2 April 1982

N. S. P. R.
AR 8/4
h.a.

A J Coles Esq
10 Downing Street
London SW1

Dear John

Davy telephoned me to say that Roy Withers was taken aback somewhat by the tones in which the Prime Minister addressed him on some occasion recently about the supported price increase in the Indian steel plant. Davy's concern is that the full situation may not have been known to the Prime Minister, and they have sent up a copy of the company's own internal note of the overall price consequences since the Indian steel contract was originally signed last year, and the present.

Essentially, the situation is that, compared with a year ago when the price basis for the final negotiations was fixed, escalation and exchange rate changes basically balance each other out in terms of pricing for the original specification. The substantial increases arise primarily through Indian decisions to go for a markedly different mix of product, and embellishments that are not essential to achieving the original specification. Davy are currently negotiating this position in Delhi, and I shall be checking the position with them when I am there on the power-station negotiations next week.

Yours

RP C B BENJAMIN



Article of the Act of 1844

Davy-Loewy Ltd

Prince of Wales Road
Sheffield S9 4EX
England

Tel: 0742-449971

Telex: 54296

AGR/WR
31st March, 1982.

CONFIDENTIAL

Mr. C.B. Benjamin,
Head of Projects & Export
Policy Division,
Department of Trade,
1 Victoria Street,
London SW1H 0ET.

Dear Chris,

As promised, I enclose an internal note on the Indian
Coastal Steelworks price situation.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'A.G. Raper', written in a cursive style.

A.G. Raper

Enc.





From A G Raper Company Location Reference AGR/BH/1260	To Sir John Buckley	Copies Mr A N Whiting Mr R Exley Dr K H Hoyle Mr N Cherrett Mr R L Woodworth
SUBJECT INDIAN COASTAL STEELWORKS		Date 29 March 1982

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Yesterday we completed the re-estimate for the above project and the revised tender will be delivered to the Ministry of Steel in Delhi later today as previously promised.

You asked to be kept informed of price changes and the attached note compares the revised bid with the original estimate of US\$2,554M which was the basis of the letter of intent issued on 24 September 1981. The price of US\$2,554M was originally offered as a preliminary ceiling estimate and was later modified to a fixed price estimate. The quotation which will be submitted today can be summarised as:

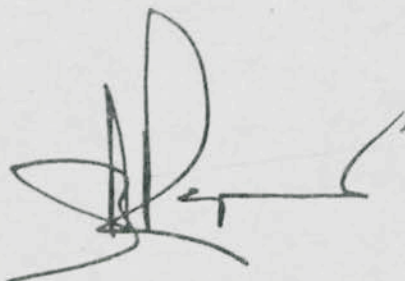
- (a) The total revised base estimate (February 1982 exchange rate) is US\$2,625M and therefore closely approximates to the letter of intent price estimate given above.
- (b) The total revised base estimate has been substantially increased to US\$3,196M by specification changes requested by the client and its consultants. In particular major changes have been made to the rolling mill. Negotiations in the next few days will indicate whether the client considers these changes to the original specification are desirable.
- (c) Since the letter of intent exchange rates have moved in our favour and the client might anticipate a lower US\$ price for the original specification than the letter of intent price. However a reduction is not possible since the exchange effect has been balanced by increases due to:

- A price updating needed to cover for delay
- A re-assessment of price fixing factors
- A re-consideration of base estimates and contingencies

.../....

- (d) If a standard exchange rate basis is used, ie September 1981, the present estimate of UK goods and services has increased by 23% over the letter of intent estimate. This is less than the increases estimated by the French and Germans at 35% and 29% respectively.

- (e) The estimates of the Indian or local works (civils and installation) remain unaltered and have yet to be re-assessed following the change of site to Daitari which was announced on 16 March. The client understands this position and we shall commence re-estimating the Indian portion following agreement on the imported packages.

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

A. G Raper

INDIAN STEEL PLANT - COMPARISON OF TENDER PRICE (MARCH 1982)
AND LETTER OF INTENT PRICE (SEPTEMBER 1981)

	<u>IN U.S. DOLLARS X 1000</u>				
	<u>TOTAL</u>	<u>UK</u>	<u>GERMAN</u>	<u>FRENCH</u>	<u>INDIAN</u>
<u>MARCH 1982 PRICE</u>					
Total Price for Revised Specification	3,196,318	1,727,361	450,170	518,787	500,000
Client Changes	(296,154)	(195,015)	(53,337)	(47,802)	-
Mill Change (new Product Mix)	(274,446)	(126,900)	(78,864)	(68,682)	-
Total Price for Original Plant (All above at Feb 82 exchange rate)	2,625,718	1,238,406	317,969	569,343	500,000
September 1981 Total (At Feb 81 exchange rate)	2,554,480	1,220,642	277,347	514,570	541,921

Power plant included in French price at value \$167,040

	<u>FEB '81</u>	<u>FEB '82</u>
Exchange to Dollars	£ 0.455	0.552
	DM 2.1	2.371
	F/F 5.0	6.1325
	Rs 8.2	9.2

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DESKBY 16183φZ
FM PARIS 161725Z DEC 81
TO IMMEDIATE DOT
TELEGRAM NUMBER CRED A 181 OF 16 DECEMBER 1981
INFO IMMEDIATE DELHI FCO ODA

MY CRED A 177: INDIAN STEEL PLANT

1. MR DAVID THOMSON OF LAZARDS CALLED ON ME THIS MORNING AND CAME IN AGAIN THIS AFTERNOON TO INFORM THE FINANCIAL COUNSELLOR OF HIS DISCUSSIONS AT LUNCH WITH PARIBAS.

2. THOMSON SAID THAT DEVEAUD, A VICE-PRESIDENT OF PARIBAS, TOLD HIM THAT HE HAD CONTACTED THE HEAD OF THE TRESOR TODAY. THOMSON DID NOT ASK FOR THE NAME OF THE PERSON IN THE TRESOR, BUT DEVEAUD MUST PRESUMABLY HAVE MEANT HABERER (DIRECTEUR DU TRESOR). THE LATTER HAD CONFIRMED THAT HE WAS AWARE OF APPELYARD'S CALL YESTERDAY. HE WENT ON TO SAY THAT THE TRESOR HAD NOW DECIDED TO INCREASE THE CREDIT MIXTE PACKAGE. THE TRESOR WERE RELUCTANT TO BE SEEN TO BE REACTING TO PRESSURE FROM HMG AND WANTED TO COMMUNICATE THIS NEWS TO THE INDIAN GOVERNMENT THEMSELVES. THEY HOPED THAT IT COULD BE ARRANGED FOR THE INDIAN GOVERNMENT TO BE PROMPTED TO ENQUIRE OF CHAMBON (FRENCH COMMERCIAL COUNSELLOR IN DELHI) WHETHER THERE HAD BEEN ANY MOVEMENT IN THE FRENCH POSITION SINCE THE VISIT OF SIVARAMAN AND THE SUBSEQUENT EXCHANGE OF LETTERS. CHAMBON WOULD APPARENTLY BE PRIMED AT THAT POINT TO COMMUNICATE THE INCREASED FRENCH OFFER.

3. THOMSON SAID THAT IT WAS NOT ABSOLUTELY CLEAR WHAT THE NEW FIGURE WOULD BE FOR THE CREDIT MIXTE PACKAGE. DEVEAUD HAD TOLD HIM THAT THE HEAD OF THE TRESOR HAD BEEN RELUCTANT TO NAME A FIGURE. NEVERTHELESS DEVEAUD AND HIS COLLEAGUES TOLD THOMSON THAT, FROM HINTS WHICH THEY HAD BEEN GIVEN, THE FIGURE WOULD BE AT LEAST F1500M. IN THE USUAL WAY WITH A CREDIT MIXTE PACKAGE, IT WOULD BE COMPOSED OF FIFTY PER CENT TREASURY LOANS AT THREE PERCENT AND FIFTY PER CENT EXPORT CREDIT ON CONSENSUS TERMS. THE REMAINDER OF THE FRENCH OFFER WOULD BE EXPORT CREDIT AT CONSENSUS RATES. THE HEAD OF THE TRESOR APPARENTLY TOLD DEVEAUD THAT THE NEW FRENCH OFFER WOULD BE CONDITIONAL UPON THE UNDERSTANDING THAT THE SIZE OF THE FRENCH SHARE WOULD NOT BE REDUCED.

4. DEVEAUD ALSO APPARENTLY TOLD THOMSON THAT HE HAD SPOKEN TO AN UNNAMED CONTACT IN THE ELYSEE WHO HAD SAID THAT THE FRENCH GOVERNMENT WAS AWARE OF THE POLITICAL IMPLICATIONS BEHIND THESE NEGOTIATIONS.

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5. THOMSON ADMITTED THAT PARIBAS' TRACK RECORD SO FAR IN OBTAINING INFORMATION WAS NOT PARTICULARLY GOOD. NEVERTHELESS IF IT IS DECIDED THAT THE BRITISH HIGH COMMISSION IN DELHI SHOULD PROMPT THE INDIAN GOVERNMENT TO MAKE THE SUGGESTED ENQUIRY, I THINK THAT, IN TERMS OF DEALING WITH THE FRENCH, IT WOULD BE IMPORTANT TO MAINTAIN OUR EFFORTS TO PERSUADE THE INDIAN GOVERNMENT TO PUT PRESSURE ON THE FRENCH GOVERNMENT (DELHI CRED A 284). IT WOULD BE USEFUL IF THE INDIAN GOVERNMENT COULD BE INDUCED TO REINFORCE THE SUGGESTION THAT THESE NEGOTIATIONS MIGHT AFFECT INDIA'S OVERALL POLITICAL AND ECONOMIC RELATIONSHIP WITH FRANCE. IT MAY ALSO BE THOUGHT WISE, IN VIEW OF PAST MISUNDERSTANDINGS, FOR THE INDIAN GOVERNMENT TO REQUEST CONFIRMATION IN WRITING OF THE NEW FRENCH OFFER.

ADVANCE COPIES: BENJAMIN, MATHRANI (PEP)
HEAD OF SAD (FCO)

HIBBERT

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ADDITIONAL DISTN
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CONFIDENTIAL PS TO PM NO 10 DOWNING STREET

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FM PARIS 151623Z DEC 81
TO IMMEDIATE DEPT OF TRADE
TELEGRAM NUMBER CREDA 177 OF 15 DECEMBER 1981
INFO IMMEDIATE DELHI

Prime Minister
You should know that
difficulties have arisen over the
French part of the credit in
Davy's tender for the Indian steel
plant. A.S.C. 16/11

YOUR TELS CREDA 176 AND 177: INDIA STEEL PLANT

1. FINANCIAL COUNSELLOR CALLED ON LEON (EQUIVALENT TO UNDER SECRETARY IN THE TRESOR) AND LE ROUX (EQUIVALENT TO UNDER SECRETARY IN THE DREE) TODAY AND SPOKE AS INSTRUCTED IN PARAGRAPH 5 OF YOUR CREDA 176.

2. LEON TOOK NOTE AND SAID THAT HE WOULD LIKE TO EXPLAIN THE SITUATION AS THE FRENCH GOVERNMENT SAW IT. HE DENIED THAT THE FRENCH GOVERNMENT HAD ENTERED INTO ANY SPECIFIC COMMITMENT FOR CREDIT MIXTE FOR THIS PROJECT. ALL THAT HAD BEEN SAID TO BANKERS AND COMPANIES IN CONNECTION WITH BOTH THE DAVY MCKEE AND DEMAG OFFERS WAS THAT FRANCE WOULD BE PREPARED TO OFFER AN UNSPECIFIED AMOUNT OF CREDIT MIXTE PROVIDED FIRSTLY THAT THE OVERSEAS PARTNERS OF THE FRENCH COMPANIES CONCERNED WERE SUPPORTED BY AN EQUIVALENT GOVERNMENTAL AID OFFER, AND SECONDLY THAT THE AID ELEMENT FOR THE FRENCH SHARE OF THE PROJECT COULD BE FITTED WITHIN THE EXISTING FRENCH AID PROGRAMME FOR INDIA. NO CREDIT MIXTE HAD BEEN REQUIRED FOR THE DEMAG OFFER. FINANCIAL SUPPORT TOTALLING F1.8 BILLION HAD BEEN DISCUSSED WITH BANKS IN CONNECTION WITH THE DAVY OFFER. THIS F1.8 BN WOULD BE DIVIDED INTO TWO EQUAL PARTS. F900M WOULD BE FINANCED ON NORMAL COFACE TERMS AT CONSENSUS RATES. THE OTHER F900M WOULD BE FINANCED 50 PER CENT BY TREASURY LOANS AT 3% AND 50 PER CENT ON NORMAL COFACE TERMS AT CONSENSUS RATES. IN OTHER WORDS, OUT OF THE TOTAL F1.8 BN, ONLY F450M WOULD BE AT THE SPECIAL TREASURY LOAN RATE WHILE THE REMAINDER WOULD BE ON NORMAL EXPORT CREDIT CONSENSUS TERMS. LEON ADDED THAT IF THE FRENCH SHARE OF THE CONTRACT WAS INCREASED TO F2.3 BN, IT WAS ENVISAGED AT PRESENT THAT THE EXPORT CREDIT ELEMENT COULD BE INCREASED BUT NOT THE TREASURY LOAN ELEMENT.

3. LEON SAID THAT ACCORDING TO HIS INFORMATION THE DEMAG OFFER WAS STILL VERY MUCH IN THE RUNNING PARTLY BECAUSE OF A POSSIBLE CHANGE IN THE SITE FOR THE PROJECT. THE INDIAN GOVERNMENT CONFIRMED THIS VIEW IN RECENT DISCUSSIONS. HE EMPHASISED THE ATTRACTIONS WHICH THIS OFFER HAD FOR THE FRENCH GOVERNMENT (OR AT LEAST THE TRESOR) THROUGH THE ABSENCE OF ANY REQUIREMENT FOR CREDIT MIXTE. THE DAVY OFFER INVOLVED A VERY SUBSTANTIAL FRENCH AID COMMITMENT ON WHAT WAS SEEN AS ESSENTIALLY A BRITISH PROJECT. FRANCE HAD OTHER PROJECTS UNDER DISCUSSION IN INDIA WHICH HAD A MUCH CLEARER FRENCH LABEL.

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/ 4. APPLEYARD

4. APPELYARD REPEATED THAT THE INDIAN GOVERNMENT HAD ACCEPTED THE DAVY-ALSTHOM BID ON THE BASIS THAT CREDIT MIXTE TERMS WOULD BE AVAILABLE FOR F1.15 BN. THE DEMAG BID WAS NOT A FEASIBLE ALTERNATIVE AND IF THE FRENCH CREDIT TERMS DESCRIBED BY LEON WERE THE ONLY ONES AVAILABLE FOR ALSTHOM, HE MUST TELL LEON QUITE BLUNTLY THAT DAVY MIGHT WELL BE OBLIGED TO SEEK ANOTHER PARTNER. HMG AND DAVY WERE DETERMINED TO SECURE THE PROJECT AND WOULD DO WHATEVER WAS NECESSARY TO ACHIEVE THIS AIM. LEON AND LE ROUX NODDED AND SAID THAT THEY UNDERSTOOD THIS. LEON COMMENTED THAT THE FRENCH GOVERNMENT WAS NOT TRYING TO STALL ON THE DAVY BID TO TRY TO GIVE THE DEMAG OFFER A BETTER CHANCE. APPELYARD SAID THAT WHILE HE DID NOT WISH TO CHALLENGE THIS ASSURANCE, IN FACT THE ALTERNATIVE OF STALLING THE DAVY BID WAS NOT AVAILABLE SINCE, IF ALSTHOM WERE UNABLE TO COME UP IN TIME WITH THE RIGHT TERMS, DAVY WOULD VERY LIKELY BE PREPARED TO LOOK ELSEWHERE.

5. LEON SAID THAT THE TRESOR WOULD REFLECT FURTHER ON WHAT HAD BEEN SAID TO SEE WHETHER ANY IMPROVEMENT COULD BE MADE IN THE FRENCH OFFER. HE ADDED THAT, GIVEN THE CONSTRAINTS OUTLINED ABOVE, THIS SEEMED UNLIKELY. HE ENQUIRED ABOUT THE EXPORT CREDIT TERMS OFFERED FOR THE UK PART OF THE PACKAGE. APPELYARD SAID THAT NO DOUBT BOTH GOVERNMENTS WOULD WANT TO REFLECT UPON THE PRESENT SITUATION WHICH HAD NOW BEEN CLARIFIED. IF FURTHER INTERGOVERNMENTAL DISCUSSIONS SEEMED USEFUL EITHER THE TRESOR OR THE EMBASSY COULD CONTACT EACH OTHER. LEON AGREED.

6. JUDGING BY LEON'S REMARKS IT SEEMS DOUBTFUL WHETHER THE FRENCH GOVERNMENT WILL BE PREPARED TO IMPROVE THE TREASURY LOAN ELEMENT OF THE ALSTHOM OFFER SUBSTANTIALLY BEYOND THE PRESENT LEVEL, SINCE THE OTHER FRENCH PROJECTS IN INDIA MENTIONED IN YOUR TUR HAVE A MUCH MORE OBVIOUSLY FRENCH LABEL ON THEM AND ARE LIKELY TO HAVE A HIGHER NATIONAL PRIORITY. BOTH LE ROUX AND LEON ALSO SEEMED UNCONVINCED THAT THE DEMAG BID WAS NO LONGER A SERIOUS RUNNER. IF IT IS CONSIDERED THAT FURTHER DISCUSSIONS ARE NEEDED WITH THE FRENCH AUTHORITIES, I SUGGEST THAT THESE SHOULD BE IN THE FORM OF MEETING BETWEEN OFFICIALS FROM CAPITALS OR A FURTHER DEMARCHE BY THIS EMBASSY. TELEPHONE CALLS TO FREYCHE ARE UNLIKELY TO CARRY MUCH WEIGHT AND CAN MORE EASILY BE SET ASIDE.

7. THOMPSON OF LAZARDS WILL BE CALLING ON THE EMBASSY TOMORROW AND WE SHALL BRIEF HIM ON THE DISCUSSIONS.

ADVANCE COPIES: BENJAMIN, MATHRANI (PEP)
HEAD OF SAD (FCO)

HIBBERT
MINIMAL
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[ADVANCED AS REQUESTED]

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PS TO PM NO 10 DOWNING STREET

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FM ODA LONDON 131305Z OCTOBER 81
PRIORITY SUVA
MODEV 407 OF 13 OCT
INFO DELHI

pa.

INDIA STEEL PLANT PROJECT

1. THE MINISTER FOR OVERSEAS DEVELOPMENT MAY HAVE SEEN FROM LPS DIGESTS THAT THE OBSERVER OF 11 OCTOBER AND THE GUARDIAN OF 12 OCTOBER HAVE CARRIED INSIDE PAGE ARTICLES STATING 'THE GOVERNMENT HAS FLOUTED ITS OWN SAFEGUARDS' BY PUTTING PDS STLG 100 MILLION OF GRANT AID FROM CONTINGENCIES AND PDS STLG 50 MILLION OF GRANT AID FROM THE NORMAL BILATERAL LOCAL COSTS CAPITAL AID PROGRAMME TO INDIA, INTO THE DAVY CONSORTIUM BID FOR THE CONTRACT FOR THIS PROJECT, BEFORE APPRAISAL. THE ARTICLES STATE ODA RESISTED THE USE OF AID IN THIS WAY, WHICH MP'S AND DEVELOPMENT EXPERTS BELIEVE 'MAKES A MOCKERY OF THE AID PROGRAMME' BUT THAT THE DOT PRESSED HARD AND THE DECISION TO PROCEED WAS TAKEN BY MINISTERS. KEVIN MCNAMARA IS REPORTED TO BE INTENDING TO WRITE TO MINISTERS, TO PUT DOWN PQS AND TO RAISE THE MATTER WITH THE COMMONS FOREIGN AFFAIRS COMMITTEE. HE IS SAID TO BE 'ALARMED AT THE CHANGE OF POLICY GOVERNING ODA FUNDS.'

2. WHEN IT IS POSSIBLE FOR YOU TO DO SO, PLEASE INFORM THE MINISTER THAT THE LINE WE ARE TAKING WITH THE PRESS IS:
1. THE AID OFFER IS SUBJECT TO NORMAL ODA PROCEDURES (IE APPRAISAL) TO CONSIDER THE DEVELOPMENTAL WORTH TO INDIA OF THE PROJECT.

II. IT IS HMG'S POLICY TO TAKE ACCOUNT OF INDUSTRIAL AND COMMERCIAL AS WELL AS DEVELOPMENTAL CONSIDERATIONS IN DECISIONS ON AID. HMG CONSIDERED THE DAVY BID TO BE MORE INDUSTRIALLY AND COMMERCIALY ADVANTAGEOUS THAN OTHERS TO THE UK AND SO SUPPORTED IT AS FAR AS POSSIBLE. AS IS NORMAL IN CONSIDERATION OF THIS SORT OF PROJECT, THE ODA WORKED WITH THE DEPARTMENT OF TRADE AND OTHER INTERESTED WHITEHALL DEPARTMENTS IN FORMULATING THE TERMS OF HMG'S INVOLVEMENT.

III. AID WAS FIRST AGREED IN PRINCIPLE FOR THE PROJECT BETWEEN MINISTERS OF PREVIOUS REGIMES IN BRITAIN AN INDIA.

RESTRICTED

/3. WE

RESTRICTED

3. WE ARE REFERRING QUESTIONS NOT DIRECTLY TO DO WITH OUR AID INVOLVEMENT TO THE DEPARTMENT OF TRADE. THEIR GENERAL LINE IS THAT GIVEN THE INDIANS PLANNED TO MAKE THE INVESTMENT ANYWAY, IT IS GOOD THAT UK COMPANIES SHOULD GET THE BUSINESS. WE ARE ALSO TRYING TO IDENTIFY MPS WHOSE CONSTITUENCIES WILL BENEFIT FROM THE WORK GENERATED BY THE CONTRACT, SO THAT THEY CAN BE LOBBIED BY TORY CENTRAL OFFICE.

4. FOR MR MARTEN'S BACKGROUND INFORMATION AND USE IF REQUIRED, THE DAVY CORPORATION HAS BEEN INVITED TO PROCEED TO NEGOTIATIONS WITH THE GOVERNMENT OF INDIA TOWARDS A CONTRACT TO CONSTRUCT THE FIRST STAGE OF AN INTEGRATED STEEL WORKS, WITH AN ANNUAL CAPACITY OF 1.3 TONNES FOR THE STEEL AUTHORITY OF INDIA LIMITED (SAIL) IN THE STATE OF ORISSA IN NORTH EAST INDIA. IT MAY BE A COUPLE OF MONTHS OR MORE BEFORE THE CONTRACT IS SIGNED. THIS IS NORMAL PROCEDURE, THE DEMAG COMPANY OF WEST GERMANY WAS DAVY'S MAIN COMPETITOR. THE APPROXIMATE VALUE OF THE CONTRACT IS US DOLLARS 2.8 BILLION, OF WHICH HALF IS UK GOODS AND SERVICES, FINANCED BY EXPORT CREDITS AND BY AID. OTHER COUNTRIES INVOLVED IN THE DAVY CONSORTIUM ARE FRANCE AND GERMANY. THE FINANCIAL SUPPORT THEIR GOVERNMENTS ARE GIVING AMOUNTS TO US DOLLARS 500 MILLION (AID AND EXPORT CREDITS) IN THE CASE OF FRANCE AND US DOLLARS 275 MILLION (EXPORT CREDITS) IN THE CASE OF GERMANY.

CARRINGTON

MINIMAL

ODA

SAD

TRED

ADDITIONAL DISTRIBUTION

INDIA ECONOMIC



Prime Minister

Foreign and Commonwealth Office

Apcc draft message to
Mrs Gandhi, attached? *Yes not*

London SW1A 2AH

24 September 1981

Dear Michael,

Paul

as slightly amended.

I enclose copies of Delhi telnos 717 and 718, advance copies of which were sent to you last night, conveying the news that the Indian Government have decided to award the Orissa steel plant contract to the Davy-led consortium. This is a very satisfactory outcome to the efforts that have been made over the last two years, culminating in the Prime Minister's visit to India in April.

FCO
informed
25/9/81
N.P. Mitchell

Davy have now received a letter about the decision from the Government of India which they regard as satisfactory (we have not yet seen a copy).

We agree with Sir John Thomson's recommendation that there should be no publicity here until there has been public confirmation by the Indian Government which he expects to be able to arrange today. The Department of Trade (PEP) are meanwhile preparing a publicity line.

Sir John Thomson recommends that the Prime Minister should send a personal message to Mrs Gandhi. We agree but consider that he should not arrange for the onward transmission of the message until the Indians are committed by a public announcement. We propose, if you agree, to instruct Delhi in terms of the enclosed draft telegrams.

Yours ever,

F N Richards
(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing St

OUT TELEGRAM

Classification and Caveats

CONFIDENTIAL

Precedence/Deskby

IMMEDIATE

ZCZC
GRS
CLASS
CAVEATS
DESKBY
FM FCO
PRE/ADD
TEL NO

1	ZCZC
2	GRS
3	CONFIDENTIAL
4	
5	
6	FM FCO Z SEPTEMBER 81
7	TO IMMEDIATE NEW DELHI
8	TELEGRAM NUMBR
9	YOUR TELNOS 717 AND 718: ORISSA STEEL PLANT
10	1. This is excellent news. Warm congratulations to you and
11	your staff for the part you have played in bringing about this
12	result.
13	2. MIFT contains a message from the Prime Minister to Mrs
14	Gandhi. You may arrange for its onward transmission as you
15	suggest, but we should prefer this to be done only when the
16	Government of India are committed by a public announcement.
17	3. The text differs only slightly from that in your telno 718.
18	The revised first sentence might, we think, be marginally more
19	pleasing to Mrs Gandhi if political calculations entered into
20	her decision.
21	4. The points about publicity are fully taken.
22	///
23	//
24	/
25	

NNNN ends telegram	BLANK	Catchword
File number	Dept S/S Office	Distribution Limited
Drafted by (Block capitals) F N RICHARDS		SAD TRED PS PS/LPS
Telephone number 233 4831		PS/MR HURD PS/PUS SIR J GRAHAM
Authorised for despatch		MR GOODISON
Comcen reference	Time of despatch	

OUT TELEGRAM

Classification and Caveats
CONFIDENTIAL

Precedence/Deskby
IMMEDIATE

ZCZC 1
GRS 2
CLASS 3
CAVEATS 4
DESKBY 5
FM FCO 6
PRE/ADD 7
TEL NO 8
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ZCZC
GRS
CONFIDENTIAL
FM FCO Z SEPT 81
TO IMMEDIATE NEW DELHI
TELEGRAM NUMBER
MIPT: ORISSA STEEL PLANT
1. Following is message from Prime Minister to Mrs Gandhi Begins. I am delighted to learn that the Government of India have decided to award the contract for the new steel plant in Orissa to the international group led by Davy. The Indian requirements are well known to be sophisticated and demanding. I am sure that Davy and their partners will do a good job for India.
I am greatly looking forward ^{very much} to seeing you at Melbourne. There is much to discuss. ~~Ends~~
Warm regards.
CARRINGTON
NNNN

NNNN ends telegram		BLANK	Catchword
File number	Dept	S/S Office	Distribution
Drafted by (Block capitals)			LIMITED
F N RICHARDS			SAD
Telephone number			TRED
233 4831			PS
Authorised for despatch			PS/LPS
			PS/MR HURD
			PS/PUS
			SIR J GRAHAM
			MR GOODISON
Comcen reference	Time of despatch		

DAVY SELECTED TO COMPLETE NEGOTIATIONS FOR A £1½ BILLION INDIAN
STEELWORKS CONTRACT

50,000 MAN-YEARS OF WORK FOR UK INDUSTRY

Today Davy has been informed that the Government of India has decided to entrust to them one of the world's largest contracts for a steelworks project valued at over £1½ billion. Final detailed negotiations have still to take place.

This means that the UK-led bid has secured this position despite very strong competition from three other international groups.

Whilst details have to be decided, the UK content will be in excess of £550 million. This contract could thus bring some 50,000 man-years of work to this country, most of it in the hard-pressed areas of the North East, the Midlands, Scotland and the North West.

The project, which will take up to four years to complete, is for the first stage of an integrated iron and steel-making and rolling plant with a capacity of 1.3m tons per annum. It is to be built for the Steel Authority of India on a coastal, greenfield site ~~at~~ ^{at} ~~Paradi~~ in the State of Orissa in East India.

/this project

Davy's European partners in are CGEE Alsthom of France and MAN-GHH of Germany. Lazard Brothers are leading the entire financing of the project with Paribas and Commerzbank respectively arranging the French and German elements of the financing involved. The finance package is expected to involve export credits from Britian, France and Germany, together with aid from the British and French Governments and euro-currency financing, enabling the entire project to be financed externally.

Throughout the negotiations Davy has received the fullest possible support from the British Government who have worked closely with Davy and Lazards at all stages.

LUK 644/ 15

OO FCO

GR 280

CONFIDENTIAL

DEYOU

FM DELHI 151050Z SEP 81

TO IMMEDIATE FCO

TELNO 687 OF 15 SEPTEMBER

YOUR TELNO 607: COASTAL STEEL PLANT

1. ^{see it} MRS GANDHI SAID THE SAME TO ME PERSONALLY, BUT THAT WAS
R WEEKS AGO. RAJIV HAS ALSO SAID THE SAME TO ME AND A WEEK
AGO HE SENT ME A MESSAGE TO SAY THE DECISION WOULD BE TAKEN IN
OUR FAVOUR WITHIN 24 HOURS. THIS AFTERNOON THE MINISTER OF STEEL
TOLD ME "INFORMALLY" THAT THE DECISION HAD BEEN TAKEN IN OUR
FAVOUR, BUT THAT HE COULD NOT YET FORMALLY CONGRATULATE ME SINCE
THERE REMAINED SOME "FORMALITIES" ON THE INDIAN SIDE. HE EXPECTED
TO SUMMON ME AGAIN ON THE 18TH OR 19TH.
2. I HOPE THIS LATEST INFORMATION WILL BE DEFINITIVE SINCE
MRS GANDHI, THE FINANCE MINISTER AND THE FOREIGN MINISTER ARE ALL
GOING ABROAD EARLY NEXT WEEK. MRS GANDHI WILL BARELY BE IN DELHI
DURING OCTOBER. (APART FROM CHOCHM SHE WILL BE GOING TO ROME, PARIS
CANCUN, TORONTO, LONDON AND POSSIBLY ELSEWHERE.) THUS IF THE
DECISION IS NOT TAKEN AND (LAST WORD UNDERLINED) ANNOUNCED BY EARLY
NEXT WEEK, IT WILL PROBABLY HAVE TO BE HELD OVER UNTIL NOVEMBER.
3. EXPERIENCE SUGGESTS THAT THERE CAN BE MANY A SLIP ETC, SO I WILL
OF COURSE WAIT HERE UNTIL WE GET THE OFFICIAL WORD AND I HOPE AN
ANNOUNCEMENT. I ATTACH A GOOD DEAL OF IMPORTANCE TO THE LATTER.
OTHERWISE THERE MIGHT BE CHANGES OF MIND. YOU SHOULD KNOW THAT IN
MAKING HIS COMMUNICATION TO ME THIS AFTERNOON THE MINISTER OF
STEEL QUIZZED ME CLOSELY ABOUT THE QUESTION OF PAKISTAN'S READMISSION
TO THE COMMONWEALTH, ABOUT US ARMS FOR PAKISTAN AND ABOUT BRITISH
FOREIGN POLICY. HE HAS NEVER DONE THIS BEFORE. HOWEVER, HE SEEMED
CONTENT WITH WHAT I TOLD HIM.
4. I HEAR PRIVATELY THAT WORD IS GOING ROUND CERTAIN QUARTERS
IN THE UK THAT "WE HAVE WON". I THINK THIS UNWISE AND HOPE

P/9
IMMEDIATE

ADVANCE COPY

India
H
MR GOODISON

Wulf SAS

DURING OCTOBER. (APART FROM WHICH SHE WILL BE GOING TO HOME, PARIS, CANCUN, TORONTO, LONDON AND POSSIBLY ELSEWHERE.) THUS IF THE DECISION IS NOT TAKEN AND (LAST WORD UNDERLINED) ANNOUNCED BY EARLY NEXT WEEK, IT WILL PROBABLY HAVE TO BE HELD OVER UNTIL NOVEMBER.

3. EXPERIENCE SUGGESTS THAT THERE CAN BE MANY A SLIP ETC, SO I WILL OF COURSE WAIT HERE UNTIL WE GET THE OFFICIAL WORD AND I HOPE AN ANNOUNCEMENT. I ATTACH A GOOD DEAL OF IMPORTANCE TO THE LATTER. OTHERWISE THERE MIGHT BE CHANGES OF MIND. YOU SHOULD KNOW THAT IN MAKING HIS COMMUNICATION TO ME THIS AFTERNOON THE MINISTER OF STEEL QUIZZED ME CLOSELY ABOUT THE QUESTION OF PAKISTAN'S READMISSION TO THE COMMONWEALTH, ABOUT US ARMS FOR PAKISTAN AND ABOUT BRITISH FOREIGN POLICY. HE HAS NEVER DONE THIS BEFORE. HOWEVER, HE SEEMED CONTENT WITH WHAT I TOLD HIM.
4. I HEAR PRIVATELY THAT WORD IS GOING ROUND CERTAIN QUARTERS IN THE UK THAT 'WE HAVE WON'. I THINK THIS UNWISE AND HOPE IT CAN BE DISCOURAGED.

THOMSON

NNNN

IMMEDIATE

India

TO PM NO 10 DOWNING STREET

GR 150

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*(Precautionary drafts only:
No evidence that a decision
is imminent.)*

CONFIDENTIAL
DESKBY 040400Z
FM D O T 031425Z SEP 81
TO IMMEDIATE NEW DELHI
TELEGRAM NUMBER CREDA 222 OF 3 SEPTEMBER.

MS Phil

COASTAL STEEL WORKS

AT THE RISK OF COUNTING CHICKENS, BUT IN THE EVEN OF AN UNEXPECTED LEAK OR SUDDEN INDIAN GOVERNMENT ANNOUNCEMENT, WE HAVE DRAFTED A STATEMENT TO BE ISSUED ON THE PRESUMPTION THAT THE DECISION IS FAVOURABLE. THIS FOLLOWS IN MIFT.

VERY GRATEFUL FOR YOUR COMMENTS. ALSO IN MIFT IS A SET OF SUPPLEMENTARIES IN THE EVENT OF A HMG SPOKESMAN BEING REQUIRED TO ATTEND SOME PRESS BRIEFING ALONG WITH DAVY. IT ATTEMPTS TO DEAL WITH SOME OF THE MORE TRICKY QUESTIONS WHICH MIGHT BE PUT.

WE HAVE NOT YET CLEARED THIS MATERIAL WITH DAVY, TO WHOM WE WOULD LOOK FOR ESTIMATES OF UK EMPLOYMENT EFFECTS, THEIR REGIONAL DISPOSITION ETC. BUT VALUABLE TO HAVE YOUR COMMENTS BEFORE WE GO FURTHER.

MINIMAL
SAD

ADDITIONAL DISTN:
INDIA ECONOMIC

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DESKBY 040400Z

PS TO PM NO 10 DOWNING STREET

FM D O T 031425Z SEP 81

TO IMMEDIATE DELHI

TELEGRAM NUMBER CRED A 223 OF 3 SEPTEMBER.

MIPT : COASTAL STEEL PLANT.

TRADE SECRETARY CONGRATULATES DAVY CORPORATION ON WINNING
DOLLARS 2.5 BILLION INDIAN STEELWORKS CONTRACT

THE RT HON JOHN BIFFIN, SECRETARY OF STATE FOR TRADE, TODAY CONGRATULATED THE DAVY CORPORATION ON WINNING THE DOLLARS 2.5 BILLION CONTRACT FOR A STEELWORKS PROJECT FOR THE STEEL AUTHORITY OF INDIA LTD (SAIL), TO BE BUILT ON A COASTAL SITE AT PARADIP IN THE STATE OF ORISSA, NORTH EAST INDIA. IN HIS STATEMENT, MR BFFEN SAID

"I AM DELIGHTED TO LEARN OF THE DAVY CORPORATION'S SUCCESS IN WINNING THIS MAJOR CONTRACT, AGAINST STRONG INTERNATIONAL COMPETITION THE AWARD OF THE CONTRACT TO DAVY RESULTS FROM MANY MONTHS OF INTENSIVE EFFORT BY DAVY ITSELF AND BY THE COMPANIES WORKING WITH IT ON THE PROJECT. THE GOVERNMENT HAS CLOSELY FOLLOWED THE PROGRESS OF THE NEGOTIATIONS AND HAS GIVEN THE FULLEST SUPPORT TO THE DAVY BID. I AM VERY PLEASED THAT THESE JOINT EFFORTS HAVE RESULTED IN SUCH A SPECTACULAR BRITISH SUCCESS WHICH WILL BRING WORK TO DAVY AND MANY HUNDREDS OF UK COMPANIES WHO WILL BE WORKING ON THE PROJECT AS SUPPLIERS AND SUBCONTRACTORS."

IT IS PARTICULARLY GRATIFYING THAT THE INDIAN GOVERNMENT, AFTER THOROUGH SCRUTINY OF BIDS, HAS SELECTED DAVY AS THE LEAD CONTRACTOR FOR THIS MAJOR PROJECT IN AN INDUSTRY OF SUCH IMPORTANCE TO THE DEVELOPMENT OF THE INDIAN ECONOMY. DAVY'S SUCCESS WILL, I HOPE, ALSO SERVE AS A REMINDER TO BRITISH COMPANIES OF THE GREAT POTENTIAL FOR CO-OPERATING WITH THE INDUSTRIES OF INDIA IN A WIDE RANGE OF SECTORS."

SUPPLEMENTARIES

1. WHAT IS THE TOTAL VALUE OF THE CONTRACT?

U.S. DOLLARS 2.5 BILLION, OF WHICH HALF IS UK GOODS AND SERVICES

2. HOW IS THIS BEING FINANCED?

BILATERAL AID GRANT POUNDS STERLING 100 MILLION
THE BALANCE FROM EXPORT CREDITS SUPPORTED BY THE EXPORT
CREDITS GUARANTEE DEPARTMENT

3. WHAT OTHER COUNTRIES ARE INVOLVED IN THE DAVY CONSORTIUM?

FRANCE AND WEST GERMANY

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/4.

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4. WHAT IS THEIR SHARE OF THE PROJECT?

FRANCE DOLLARS 500 MILLION
WEST GERMANY DOLLARS 275 MILLION

5. WHAT FINANCIAL SUPPORT ARE THE OTHER GOVERNMENTS GIVING?

FRANCE - A COMBINATION OF AID AND EXPORT CREDIT
WEST GERMANY - EXPORT CREDITS

6. WHO WERE DAVY'S COMPETITORS FOR THIS PROJECT?

A NUMBER OF COMPANIES HAVE BEEN INTERESTED BUT IN THE FINAL STAGES THE COMPETITION WAS BETWEEN THE DAVY CONSORTIUM AND ANOTHER EUROPEAN CONSORTIUM HEADED BY DEMAG OF WEST GERMANY.

7. WERE MANY BRITISH COMPANIES INVOLVED IN THE DEMAG CONSORTIUM?

YES, BUT THE OVERALL UK ELEMENT IN THE DEMAG BID WAS MUCH SMALLER THAN IN THE DAVY BID.

8. HOW MUCH SMALLER?

THE UK ELEMENT IN THE DEMAG BID WOULD NOT HAVE EXCEEDED POUNDS STERLING 350 MILLION

9. WHICH UK COMPANIES WERE INTERESTED IN THE DEMAG BID?

PRINCIPALLY GEC, TAYLOR WOODROW, VICKERS.

10. WHY WAS UK AID CONFINED TO THE DAVY BID?

IT IS GOVERNMENT POLICY TO TAKE ACCOUNT OF INDUSTRIAL AND COMMERCIAL CONSIDERATIONS IN DECISIONS ON AID. THE GOVERNMENT CONSIDERS THE DAVY BID TO BE INDUSTRIALLY AND COMMERCIALY MORE ADVANTAGEOUS TO THE UK. NOTABLY THE GREATER UK CONTENT IN THE DAVY, THE INFLUENCES OF A UK-LED GROUP WINNING THE CONTRACT ON OTHER UK COMPANIES CO-OPERATING WITH INDIAN COUNTERPARTS, AND THE IMPACT OF REAFFIRMING DAVY'S PRE-EMINENT REPUTATION IN MAJOR PROJECTS.

11. DOES THIS MEAN THAT, WITHOUT AID, THE DAVY BID WOULD HAVE BEEN UNCOMPETITIVE?

NO, WE UNDERSTAND THAT THE DAVY PROPOSAL WAS EXAMINED FULLY ON ITS MERITS AFTER THE COMPETITION WITHOUT TAKING ACCOUNT OF THE UK AID.

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/12

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12. IF DAVY WAS COMPETITIVE, WHY WAS AID OFFERED?

FOR A PROJECT OF THIS IMPORTANCE, WE DECIDED IT WAS RIGHT TO MAXIMISE THE UK'S CHANCES BY OFFERING THE MOST ATTRACTIVE FINANCIAL PACKAGE. HENCE THE DECISION TO SET ASIDE POUNDS STERLING 100 MILLION FROM OUR TOTAL AID PROGRAMME IN SUPPORT OF THE DAVY BID.

13. IS THIS AID ADDITIONAL TO THE NORMAL INDIAN BILATERAL PROGRAMME?

YES

14. WHY HELP DEVELOPING COUNTRIES TO BUILD NEW STEELMAKING CAPACITY WHEN THE EUROPEAN STEEL INDUSTRY IS IN DECLINE?

ONE OF THE CONSEQUENCES OF THE RECESSION IS THAT ONLY DEVELOPING COUNTRIES HAVE A PRIORITY TO NEW STEELMAKING CAPACITY TO MEET THEIR EXPANDING DOMESTIC DEMAND. ON EMPLOYMENT IN THE STEEL INDUSTRY IN EUROPE. MOREOVER, THE INDIAN GOVERNMENT WOULD UNDOUBTEDLY UNDERTAKE THE INVESTMENT IN ANY CASE AND IT IS BETTER FOR BRITAIN TO HAVE AS MUCH AS POSSIBLE OF THE WORK DONE BY OUR COMPANIES.

MINIMAL
SAD

ADDITIONAL DISTN:
INDIA ECONOMIC

3

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File

886
India

28 August 1981

INDIA: COASTAL STEEL PROJECT

This is just to say that the Prime Minister has seen and noted Mr. Baker's minute of 26 August.

W. F. S. RICKETT

Jonathan Hudson, Esq.,
Department of Industry.

CONFIDENTIAL

VB

Prime Minister

2



PRIME MINISTER

You will want to be aware
of the package at A. The
Indian Cabinet are expected
to reach a final decision by
the end of this week

WM
26/8

MS

INDIA: COASTAL STEEL PROJECT

The final stages of negotiation have been marked by a continuing slippage in the date of the crucial Cabinet meeting, and while this has taken place, Demag have been active in pressing adjustments on a number of fronts. We are advised by the High Commissioner that there are now two crucial areas on which success will depend: fixing the interest-rate on all finance during construction, and our ability to present an attractive offer for financing UK exports connected with the project infrastructure.

On the first, we have been advised that Davy needs to be able to present an unqualified assurance that interest on \$620 million finance during construction will not exceed 7½%. This would involve Davy in as much as possible (say \$300 million) in fixed-rate Deutschmarks and the balance probably in floating rate US dollars, and making up the difference on this amount between an interest rate at 7½% and whatever commercial rates were obtained. This would involve a potential liability for Davy of \$80-\$110 million. Davy have already conceded most of their final negotiating margin and could only contemplate these extra costs if relieved of some £20m of this liability. This could be achieved by a very special use of provisions under Section 8 of the Industry Act.

On infrastructure, the Germans have the advantage of working in Deutschmarks, and to provide an attractive offer to counter them, we would envisage offering a line of project credit of £60m of which £15m would be additional aid and the remainder made available on normal ECGD terms. Neil Marten has confirmed that up to £20m of additional aid can be made available.

A | We are therefore authorising the High Commissioner to convey, as you indicated in your minute of 3 August as a last resort if necessary, an offer from Davy to fix interest during construction on the understanding that we shall help them to the tune of £20m, and for a £60m line of credit for infrastructure which would include £15m of aid. This amounts to an extra total cost of £35m and I think that you should be



aware of this as it is £15m in excess of what Neil has agreed but still within our Industry Act Provision.

The High Commissioner is being asked to keep these cards to play only if necessary, and to deploy lesser options if these appear to be able to swing the deal. I thought you and colleagues would wish to be aware of the line that we are taking. We await a final decision which is at present thought likely to be taken at a meeting of the Indian Cabinet this Thursday or Friday.

I am copying this minute to the Foreign Secretary, Secretary of State for Trade, the Chief Secretary and Minister for Overseas Development.

KB

KENNETH BAKER

26 August 1981

GRS 300

CONFIDENTIAL PS NO 10 DOWNING STREET

CONFIDENTIAL

FROM DELHI 190820Z AUG

TO IMMEDIATE DOT (FOR BENJAMIN PEP)

TELEGRAM NUMBER CRED A 174 OF 19 AUGUST 1981

AND TO IMMEDIATE FCO

MY TELNO CRED A 173: COASTAL STEEL PLANT

1. I AM SORRY TO BE HALF AN HOUR BEHIND THE DEADLINE, BUT I CAN NOW EXPRESS THE OPINION THAT WE MAY WIN THE CONTRACT WITHOUT LOWERING THE PRICE (PARAGRAPH 2 OF MY TELNO 264). THERE IS A CONDITION, VIZ THAT DAVYS WOULD HAVE TO UNDERTAKE TO FIX THE INTEREST RATE ON THE EURO-CURRENCY BORROWING, BUT THEY WOULD BE ALLOWED TO CHOOSE THE CURRENCY TO BE BORROWED. I IMAGINE THEY WOULD PROBABLY CHOOSE DEUTSCH MARKS OR A MIXTURE OF DEUTSCH MARKS AND YEN.

2. I AM NOT IN A POSITION TO ESTIMATE THE PRECISE FINANCIAL CONSEQUENCIES OF THIS IDEA WHICH, AS FORECAST IN PARAGRAPH 8 OF MY TUR HAS NOW BECOME FAIRLY FIRMLY ENTRENCHED. IN MY VIEW, HOWEVER, ALL THE COMMENTS AND PROPOSALS IN MY TUR STAND AND I SHOULD BE GRATEFUL FOR A RESPONSE TODAY. THE GERMANS ARE AT PRESENT DISCUSSING THEIR OFFER WITH THE INDIANS AND MUCH MAY DEPEND UPON THE UPSHOT. IT WILL BE PRUDENT FOR US TO PREPARE ALTERNATIVE WAYS TO THE NECESSARY GOAL, NAMELY THAT WE ARE A COUPLE OF MILLION DOLLARS CHEAPER THAN THE GERMANS. WE MAY HAVE TO MAKE A CHOICE BETWEEN ALTERNATIVES AT THE LAST MOMENT, AND WE SHOULD CERTAINLY NOT PUT A NEW FORMAL OFFER TO THE INDIANS UNTIL THE MINIMUM PERIOD BEFORE THE CRITICAL CABINET MEETING, WHENEVER THAT IS.

3. WE HAVE TO ASSUME THAT EVERYTHING WE SAY FORMALLY IS QUICKLY KNOWN TO OUR OPPONENTS. I AM UNEASY AT THE EXTENT TO WHICH DAVY USES THE OPEN TELEPHONE AND THINK THEY SHOULD BE ADVISED NOT TO USE IT FOR CRUCIAL COMMUNICATIONS. IT WILL BE BETTER, IF YOU AGREE, TO SEND THESE THROUGH BRITISH DIPLOMATIC CHANNELS.

4. PLEASE GIVE THIS TELEGRAM INDIA TRADE DISTRIBUTION.

THOMSON

LIMITED
SAD
TRED
ERD
ESID
SIR J GRAHAM
MR GOODISON.

ADDITIONAL DISTRIBUTION
INDIA/PAKISTAN/BANGLADESH ECONOMIC
COPIES TO:-
MR ST CLAIR H M TREASURY
MR M ATKINSON H M TREASURY
DOT/PEP

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Prime Minister 2

For information

wm
vls

From the Secretary of State

ms

CONFIDENTIAL

William Rickett Esq
Private Secretary
10 Downing Street
London, SW1

18. August 1981

Dear Willie

INDIAN COASTAL STEEL PLANT

Thank you for your letter of 3 August.

Mr Gandhi's comments on Davy's price were made before Davy made their recent price reduction. Our current information is that following this price reduction, Davy are level pegging with Demag on price before taking into account the value of the aid offer. On this basis, the United Kingdom led bid should have the edge over the German bid, other things being equal, and provided the Indians take account of our aid in their assessment. We would therefore hope to be able to secure the contract without having to consider offering more aid.

However, it now appears that the Germans have produced an attractive finance offer of a very low fixed rate of interest for all local costs and Eurocurrency borrowings during the construction period. The Department are urgently considering with Davy and their merchant bankers, ways in which such an offer, if verified, can be countered, and we will return should any special action prove necessary.

A decision is expected within the next four weeks and we will keep you in touch with developments.

I should be grateful if the other recipients of this letter (and officials from their Departments) would note the extreme commercial sensitivity of this information, particularly in relation to their dealings with GEC. GEC (who are part of the German bid on this project) have indicated to us that they have learned of Davy's latest price reduction. This knowledge will have robbed this price reduction of its vital element of confidentiality and is likely to precipitate a Demag counter thrust.

I am sending copies of this letter to Roderic Lyne (FCO), Ian Ellison (Department of Industry) and Susan Unsworth (ODA).

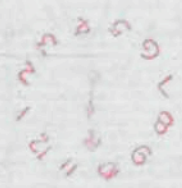
Yours sincerely

Catherine Capon

CATHERINE CAPON
Private Secretary
CONFIDENTIAL



For the Registrar of Companies



18 AUG 1984

GR 400

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FM DELHI 171130Z AUG 81

TO IMMEDIATE FCO

TELNO 624 OF 17 AUGUST

AND TO IMMEDIATE DOT (FOR PEP)

MY TELNO 597: COASTAL STEEL PLANT

1. AS YOU KNOW, THE INDIAN CABINET TOOK THIS QUESTION TWICE (ON 6 AND 7 AUGUST) WITHOUT COMING TO A FIRM CONCLUSION. IT WAS CLAIMED AT CABINET THAT THE DEMAG OFFER, THOUGH SLIGHTLY HIGHER, WAS A FIXED PRICE IN EVERY RESPECT INCLUDING INTEREST DURING THE PERIOD OF CONSTRUCTION, WHEREAS THE DAVY OFFER WAS FIXED IN EVERY RESPECT EXCEPT APPARENTLY AS REGARDS THIS INTEREST. THE LATTER, IT WAS CLAIMED, COULD THEREFORE TURN OUT, DEPENDING ON FLUCTUATING EXCHANGE RATES, TO BE SIGNIFICANTLY MORE EXPENSIVE. SINCE THEN I HAVE BEEN IN ALMOST DAILY CONSULTATION WITH THE REPRESENTATIVES HERE OF DAVYS AND LAZARDS. WITH THEIR HELP I HAVE BEEN OVER THE GROUND CAREFULLY WITH THE ECONOMIC STAFF IN THE PRIME MINISTER'S OFFICE AND WITH GILL, THE NEW SECRETARY STEEL WHO TOOK OFFICE 13 AUGUST. WE ARE MAKING PROGRESS, BUT ARE NOT YET OUT OF THE WOOD, ESPECIALLY SINCE THERE IS REASON TO SUPPOSE THAT DEMAG HAVE DROPPED THEIR PRICE BY A FURTHER DOLLARS US 250 MILLION TO A NEW "FIXED" PRICE OF APPROXIMATELY DOLLARS US 2635 MILLION. I HAVE SPOKEN WITH THE CABINET SECRETARY WHO BELIEVES THE FINAL DECISION WILL BE TAKEN THIS WEEK AND GILL CONCLUDED MY SECOND CONVERSATION WITH HIM BY SAYING THAT HE EXPECTED TO HAVE SOMETHING TO TELL ME ON WEDNESDAY OR THURSDAY. MY GUESS IS THAT THE CABINET WILL BE HELD ON THURSDAY OR FRIDAY. IT IS VERY MUCH IN OUR INTERESTS TO SECURE A FAVOURABLE DEVISION ON THAT OCCASION AND NOT TO ALLOW THE MATTER TO DRAG ON. PARLIAMENT REASSEMBLED TODAY AND AS YOU WILL SEE FROM MY TELNO 625, ALL SORTS OF CONTROVERSIAL AND POSSIBLY DAMAGING MATTERS MAY BE AIRED SOON.

2. I AM REASONABLY SATISFIED THAT THE DECISION WILL NOT GO AGAINST US WITHOUT OUR BEING GIVEN A CHANCE TO IMPROVE OUR OFFER. IT IS STILL JUST POSSIBLE THAT WE MAY WIN THE CONTRACT ON THE BASIS OF OUR PRESENT OFFER. HOWEVER, I THINK IT IS MORE LIKELY THAT WE SHALL HAVE TO IMPROVE IT AT ANY RATE MARGINALLY. IT WOULD CERTAINLY BE PRUDENT TO ASSUME THIS. I KNOW MUCH WORK HAS BEEN GOING ON IN LONDON FOR SOME DAYS TO THIS EFFECT. I HOPE IT IS NOW VIRTUALLY COMPLETE

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CONFIDENTIAL

AND THAT I CAN BE GIVEN TOMORROW AN INDICATION OF WHAT FLEXIBILITY WE HAVE IN OUR OFFER, PREFERABLY WITH ALTERNATIVE WAYS OF REDUCING IT BELOW THE GERMAN FIGURE QUOTED ABOVE. I HAVE SPOKEN WITH MRS GANDHI AND BELIEVE THAT IF WE CAN DO THIS IN TIME FOR THIS WEEKS CABINET WE SHALL GET THE CONTRACT. IT REMAINS EXCEEDINGLY IMPORTANT THAT THERE SHOULD BE NO PUBLICITY.

3. PLEASE GIVE THIS INDIA TRADE DISTRIBUTION.

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DOT/PEP



CF

10 DOWNING STREET

From the Private Secretary

3 August 1981

INDIAN COASTAL STEEL PLANT

Thank you for your letter of 31 July to Michael Alexander.

The Prime Minister has seen this letter, and has commented that Mr. Gandhi mentioned the steel plant contract to her as well. He apparently said that India wanted the UK to be awarded the contract, but that Davy's price was higher than the German bid. The Prime Minister has said that, if this is so, we should consider making up the difference between the bids with extra aid to India. The Prime Minister recognises that this would be a last resort, but she considers that the contract is important to British industry.

I am sending copies of this letter to Roderic Lyne (FCO), Ian Ellison (Department of Industry) and Susan Unsworth (ODA).

W. F. S. RICKETT

Mrs. Catherine Capon,
Department of Trade.

RH


 (2)
 Prime Minister

From the Secretary of State

[Signature]

 Michael Alexander Esq
 Private Secretary
 10 Downing Street
 London, SW1

3/ July 1981

Dear Michael

INDIAN COASTAL STEEL PLANT

I understand that during yesterday's dinner given by the Prime Minister in connection with the Royal Wedding, Mr Rajiv Gandhi mentioned to Mr Neil Marten that a decision on the steel plant contract could be taken soon, but that he understood that there had been a hiccough over Davy's price. In consequence the Prime Minister asked for a note on the subject. I attach a note the Department has prepared. We will be happy to provide any further elaboration.

Copies of this letter and note go to Roderic Lyne (FCO), Ian Ellison (DoI) and Susan Unsworth (ODA).

Yours sincerely

Catherine Capon

 CATHERINE CAPON
 Private Secretary

Mr. Gandhi also mentioned it to me. He said that India wanted us to have the order but our price was higher than the other bid. I hope that the requisite amount of extra aid can be forthcoming if that is so. We need the order.



COASTAL STEEL PLANT: POSITION NOTE:

In the period since the Prime Minister's visit to India, relatively little movement has taken place on the steel plant. The Indian Negotiating Committee of officials submitted their report to the Indian Commerce and Steel Minister a month or so ago, and we understand that it is about to go to a Cabinet Committee.

2 All the information which we and Davy obtained on the recommendations in this report suggested that the official Committee proposed that the two main contenders Davy and Demag be called for further detailed negotiations. It also emerged that there was an apparent price advantage in favour of the German bid, (excluding the effects of the financial package). Whilst the size of the gap was not known, this price advantage appeared to stem from the clever contract exclusions, presentational adjustments and favourable assumption employed by the Germans, rather than any underlying competitive advantage. The Indian officials appeared fully seized of the reasons for the differences in prices, and were aware that the gap was likely to be non-existent (or would become non-existent) when final negotiations commenced. They confirmed to Davy that there was no need for concern. In the light of this, Davy took a considered decision that they would preserve their ammunition for the last stage of negotiations, at which stage they would make their final reduction.

3 However, it now appears that the Indian Steel and Commerce Minister (Mr Mukkerjee) realised only very recently that there was this apparent price gap, and felt that irrespective of the reasons for the difference, the gap needed to be removed at this stage in the negotiations rather than waiting for the final negotiations. His motives are a matter for conjecture. On the assumption that he is pro-Davy, it could be because he wished to try and short-circuit the decision process and not wait for final negotiations; or in order to prevent proponents of Demag from attempting to knock out Davy at this stage.

4 It has also emerged from these confidential sources that the price gap between Demag and Davy was of the order of 12-13%, and appeared to be the result of Demag making lower inflation assumptions, assuming a shorter (and somewhat unreasonable) construction period, and a substantially lower figure for local costs (even though both Davy and Demag were asked to use the same local construction company, who provided Davy with their estimates of costs).



5 In consequence, Davy have submitted a revised proposal today to the Indians which "reduces" their price by 14%, based on the same assumptions adopted by Demag. This will give Davy a price advantage of 1% before taking aid into account and should at least preserve Davy's position, or at best enable Mr Mukkerjee to argue that our aid gives the Davy bid the decisive edge.

6 Davy are working very closely with the High Commissioner who will be advising us of any developments. No British Ministerial action is necessary at this stage.

Department of Trade
PEP2
31 July 1981

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FBK

c. D. H. d.

10 DOWNING STREET

THE PRIME MINISTER

9 February 1981

Dear Sir John,

Thank you for your letter of 23 January from which I was pleased to learn of your optimism about a successful conclusion to Davy's pursuit of the Paradip Steelworks contract in India.

My colleagues and I are conscious of the role that Government can play in diplomatic, ministerial and financial support of UK companies and of their winning such major contracts in the developing world. Davy's recent success in winning the rolling mills contract at Nador in Morocco clearly points to the success of this combined approach to such contracts.

While the Office of Fair Trading is considering the recommendations that it will make about the possible reference of the Enserch bid to the Monopolies and Mergers Commission, it would not be appropriate for me to comment on that matter. I can, however, assure you that full consideration is being, and will be, given to all relevant factors, including the possible impacts on this country's future ability to win major project contracts overseas.

Yours sincerely,

sgd Margaret Thatcher

Sir John Buckley

JS