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807

PREM 19/4999

● PART 2 ends:-

AJL to PM 19/11

PART 3 begins:-

PM to PM INDIA T224/82



10 DOWNING STREET

Prime Minister

India ①
John - no
we - Golek
nd

p.a. 19/11

I think it is Mr. Gandhi's birthday on
Friday (19 November).

You do not normally send birthday
wishes to heads of government. But would
you wish to make an exception for Mr. Gandhi
(the only difficulty is that we shall then have to
do it every year!).

If so, perhaps you would like to write
two or three lines which I will telegraph
tomorrow.

A.S.C.

INDIA

39

17 November 1982

The Prime Minister has asked me to thank you for your letter of 15 November, reporting on the Finale Concert of the Festival of India.

Mrs. Thatcher was naturally disappointed that she could not attend this event herself, but she has heard many favourable comments on it during the last few days and congratulates the Festival Trust on a successful conclusion to a most successful Festival.

AJC

Sir Michael Walker, GCMG.

R



10 DOWNING STREET

From the Private Secretary

16 November 1982

Call on the Prime Minister by Mrs. Jayakar
on Tuesday 16 November 1982

Mrs. Jayakar paid a brief call on the Prime Minister this morning. She was accompanied by the Indian High Commissioner.

The conversation was mostly of a rather insubstantial nature. But Mrs. Jayakar said that the Festival of India had been a most rewarding experience. She was particularly pleased that so many young Indians had come to this country and met their counterparts. The educational programmes had been especially rewarding. She was considering whether to commission a book on the Festival to illustrate the fact that it had been a breakthrough in communication between one country and another. There was no better way of building bridges.

Mrs. Jayakar also referred to the fact that the Festival funds were in surplus both in the United Kingdom and in India. She said that she would be in touch with Mr. Swraj Paul and Sir Michael Walker about possible uses for these funds. The Prime Minister suggested that ways should be found of building on the success of the Festival. It would be a great pity if there was no follow up activity.

Mrs. Jayakar thanked the Prime Minister warmly for her own interest in the Festival. Mrs. Thatcher asked her to convey her warm regards to Mrs. Gandhi and said how much she had enjoyed entertaining Rajiv Gandhi at lunch yesterday.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

CALL ON THE PRIME MINISTER BY MRS. JAYAKAR ON TUESDAY 16 NOVEMBER 1982

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[Pl. redo as a letter
to Mr. Holmes.]

16 November 1982



Festival of India

Government of India

Patrons

Smt. Indira Gandhi
Prime Minister of India

The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister of U.K.

Chairman

Indian Advisory Committee
Smt. Pupul Jayakar

November 15, 1982.

Dear Mr. Coles,

The Festival of India in Britain concluded on the 14th of November, 1982. For eight months India and Britain have come together through a series of exhibitions, performing arts, theatre, films and seminars. To sustain a Festival for eight months, to emphasize quality and to cover a vast canvas has demanded high endeavour from the many people who have contributed towards its success. The Festival has received wide acclaim amongst all sections of people and has been extremely well received by the media. The warmth and goodwill generated will I hope, leave a major impact on the minds and hearts of the peoples of Britain and India.

The Indian Advisory Committee for the Festival of India in Britain wishes to express its deep gratitude for the cooperation and assistance it received from those associated with it and as a token of their appreciation, would like to present a small souvenir to commemorate the Festival.

May I thank you all that you have done to make the Festival possible.

Yours sincerely

Pupul Jayakar
(Pupul Jayakar)

Mr. A.J. Coles
Private Secretary to Prime Minister
10 Downing Street
London SW1



Foreign and Commonwealth Office

London SW1A 2AH

15 November 1982

Dear John,

Call on the Prime Minister by Mrs
Pupul Jayakar

I understand that Mrs Pupul Jayakar, Chairman of the Indian Advisory Committee, Festival of India, will be calling on the Prime Minister at 11.45 am on Tuesday 16 November.

/ I attach a brief containing Points to Make and Essential Facts for use by the Prime Minister.

Yours ever

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street



CALL ON THE PRIME MINISTER BY MRS PUPUL JAYAKAR, CHAIRMAN OF THE INDIAN ADVISORY COMMITTEE, FESTIVAL OF INDIA, TUESDAY 16 NOVEMBER AT 11.15 AM.

POINTS TO MAKE

1. Delighted with the success of the Festival. Grateful to Mrs Gandhi for her joint patronage. Also to the Indian Government for their commitment and to the Indian Advisory Committee and organisers concerned for the energy and care they have devoted to the Festival.
2. Grateful to all the artists for the spirit with which they have entered into events; and the interest and pleasure they have given to thousands in Britain.
3. Very pleased to have been present with Mrs Gandhi at the Inaugural Concert and the opening of the Hayward Gallery and Science Museum exhibitions. Sorry to have been unable to attend the closing concert but understand this was another splendid and joyful occasion. Delighted that Mr and Mrs Rajiv Gandhi were able to come to Britain for the Finale.
4. The Festival has been an event of great significance to Indo-British relations. Already expressed the belief that it would lead to a new awareness in Britain of the spirit and meaning of India. Sure it has done so and that it will enrich our relations for years to come.
5. The Festival has succeeded in presenting a positive image of India in the UK, reminding us that India is a modern nation, a considerable economic power possessing advanced technology, as well as a country of enormous artistic talent and diversity.
6. Impressed by the way the Festival has reached out to the people of Britain, not only to art lovers and scholars but to
/ordinary



- 2 -

ordinary people from all walks of life including numbers of children.

7. Through the Festival the Indian community have regained contact with their cultural roots. This experience has been particularly valuable for community relations and understanding.



ESSENTIAL FACTS

8. Mrs Jayakar, Chairman of the Indian Advisory Committee, (personality note attached) is in Britain for several days for the close of the Festival. She attended the Festival Finale at the London Coliseum on the evening of 14 November.

9. Mrs Jayakar has closely followed preparations for and progress of the Festival and has made several visits to Britain in this connection. She called on the Prime Minister on 19 June, 1981. She is close to Mrs Gandhi, whom she accompanied to London last March for the Inaugural events of the Festival.

10. The call on 16 November is likely to be a courtesy call to thank the Prime Minister for her patronage of the Festival. At a press conference on 11 November she paid tribute to the unwavering assistance and interest of the Prime Minister and Mrs Gandhi as joint patrons, and spoke warmly of the British people's contribution and response to the Festival and of its achievements. She is clearly delighted by its success.

11. Although the Prime Minister with Mrs Gandhi attended the Festival's Inaugural Concert on 22 March she was prevented by pressure of work from attending the Finale. This was a concert of folk and tribal music, sponsored by Mr Swraj Paul, Chairman of the Indo-British Association and was attended by HRH The Duke of Gloucester, by Mr and Mrs Rajiv Gandhi representing the Indian Prime Minister and by Mr John Nott, Secretary of State for Defence, representing the Prime Minister. It was a colourful presentation, and played to a packed house. Mrs Jayakar was noticeably delighted by the success of the evening.

12. When Mrs Jayakar called on the Prime Minister in June 1981 the Festival was still short on funds and organisation. The Prime Minister's fund raising reception on 17 July, 1981 and the appointment in August of Mr Stanley Hodgson as Festival Director, gave the necessary impetus. The Festival Trust have been able to meet some unforeseen expenses and may now finish with a surplus.



- 2 -

13. In her message in the programme for the Inaugural Concert the Prime Minister expressed the belief that the Festival would lead to a new awareness in the United Kingdom of the spirit and meaning of India. The enormous and sustained interest that the Festival has commanded in people from all walks of life, as well as in the media, leaves no doubt that this belief has been fulfilled. According to attendance figures (which are still not complete) the main exhibitions in London alone have attracted well over half a million visitors, while in the country as a whole the total is more than double that figure.

14. A further indication of success must be that the Americans are said to be thinking of mounting a similar Indian Festival in 1985. We understand that Mrs Jayakar has been asked to advise on this event.



MRS PUPUL JAYAKAR

Chairman, Indian Advisory Committee, Festival of India

Born 11 September 1915, Mrs Pupul Jayakar has been closely associated with the development of handlooms and handicrafts of India since Independence. A pioneer in the field of rural art and design, she was the Chairman of the Handicrafts and Handlooms Exports Corporation of India Limited (Government of India) from 1968 to 1977, Chairman of the All-India Handicrafts Board (Government of India) from July 1974 to 1977, Chairman of the Central Cottage Industries Corporation from 1975 to 1977, Chairman of the Governing Body of the National Institute of Design, Ahmedabad, from 1974 to 1978.

President of Krishnamurti Foundation India from 1968 to 1978, Chairman of Calico Museum of Textiles from 1979. Adviser (Handlooms and Handicrafts), Government of India since 1980.

Chairman of the Advisory Committee for the Festival of India in Britain set up by the Department of Culture, Government of India in 1980.

She is on the Editorial Board of the Lalit Kala Journal and the Journal of Indian Textile History.

She is also the author of 'God is not a Fullstop' - a volume of short stories and was co-author of 'Textile and Ornamental Arts of India' by the Museum of Modern Art, New York.

She has contributed a number of articles to Marg, Lalit Kala and the Journal of Indian Textile Industry.

Her latest book 'The Earthen Drum - An Introduction to the Ritual Art of Rural India' was published by the National Museum in October 1980.

/She



- 2 -

She was awarded 'Padma Bhushan' as a social worker in 1967 for her achievements in the field of handloom development. During the same year, she also received 'Watumull Award' for her distinguished achievement in the field of Indian handicrafts.



Foreign and Commonwealth Office

London SW1A 2AH

15 November, 1982

Dear Sir

Mr 17
H.A.

India: Death of Acharya Vinoba Bhave

Bhave, a disciple of Mahatma Gandhi, died in India during the weekend. He was venerated by Indian statesmen and politicians of all political persuasions as well as the Indian population as a whole.

The Prime Minister, who is entertaining Rajiv Gandhi and other prominent Indians to lunch, will wish to express her condolences.

/ I attach a speaking note.

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street



SPEAKING NOTE

India: Death of Acharya Vinoba Bhave

Deep regret to learn of death. Please accept my deepest sympathy on your country's loss.

Background

Bhave, who died this weekend, was a close associate of Mahatma Gandhi and the Freedom Movement. He was later involved in a partially successful attempt to re-distribute land to the poor. In recent years he forsook political life and went into reclusion as a Hindu ascetic. His significance in India was spiritual rather than political.

Two weeks ago Bhave embarked on a complete fast which led to his death. Mrs Gandhi and the leaders of other political parties, including the Communists, visited him and attempted to dissuade him from his purpose but without success.

Trustees

Sir Michael Walker GCMG *Chairman*
The Rt Hon Lord Aldington KCMG CBE DSO
Mr John Burgh CB
Mr RP Chandaria
The Lord Chitnis
Sir John Cuckney
Mr Maneck Dalal
The Earl of Harewood
Sir Ronald McIntosh, KCB
Mr Swraj Paul
The Rt Hon Kenneth Robinson
HE Dr V A Seyid Muhammad
Dr K S Shelvankar
Mr A J Shepperd



Festival of India

Patrons

The Rt Hon Margaret Thatcher MP
Shrimati Indira Gandhi

Festival of India Office,
Room 64/G Government Offices,
Great George Street,
London SW1A 1AA.
Telephones: 01 233 5986 and 233 3606

15 November 1982

The Right Honourable Mrs Margaret Thatcher MP
10 Downing Street
LONDON SW1

Prime Minister

You may like to read

before Mr. Jayakar comes

tomorrow.

A.J.C. 11

Dear Prime Minister,

I thought you might like to have a short report on the Finale Concert yesterday evening of the Festival of India. We were, of course, disappointed that owing to the pressure of your other work you could not be with us, but we were honoured to have HRH The Duke of Gloucester and Mr Nott, and in the audience there were Mr Speaker and various Ministers. So the British presence was very well represented, which I am sure that the Indians noted with appreciation. I enclose a copy of the programme of the Concert which, as you will see, was largely made up of tribal dances and singing. It was all very cheerful and colourful, and I think the audience thoroughly enjoyed the evening, while the Indians were obviously delighted that the Concert was given such a very warm reception from a full house.

The Concert is the last item in our eight months long programme and it is very satisfactory that the enthusiasm for the Festival should have been so well sustained throughout this long period. Here in Britain, I suppose that perhaps the best criterion of public response is the attendance at the main exhibitions which in London alone have attracted well over half a million visitors and in the country as a whole the total is much more than double that figure. This is very rewarding, and of course we have also been delighted that the Indians themselves have obviously been so pleased about the Festival, as has been shown by Mrs Gandhi's particularly warm remarks.

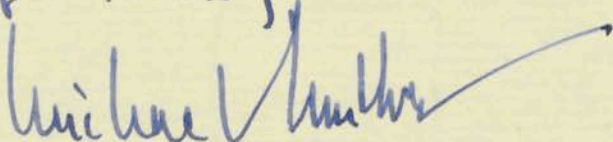
We have now got a certain amount of tidying up to do before we can finally close the books on the Festival. One of the main items is that, largely owing to the generosity of the sponser for the Festival Finale, Mr Swraj Paul, who shouldered all of the costs involved, we are left with quite a substantial

/financial surplus.

financial surplus. The Trustees will be meeting to consider how this should be disposed of to best advantage, consonant with the objectives of the original Trust.

You may, I think, be interested to know that we are told that the Americans are now thinking of following our example, by mounting an Indian Festival in 1985. Their intention is to have similar exhibitions to those in our own Festival, and they have had a team over here to see how it has all been done. So we may have really started something, and the Indians are obviously delighted at the prospect of a Festival in America.

I should like to take this opportunity of renewing to you on behalf of all the Trustees our warm thanks for having honoured us by being a Patron of the Festival and our gratitude for the close interest you have taken in it and for all the help you have given us.

Yours sincerely,


Sir Michael Walker
Chairman
Festival of India Trust

SUBJECT.

PRIME MINISTER'S ②
PERSONAL MESSAGE
SERIAL No. T2006/82



PRIME MINISTER'S HOUSE
NEW DELHI

October 28, 1982

Prime Minister

We shall let you know

1982.

M 12/11

cc. Minister sec
off.

Dear Prime Minister,

I do not believe in interfering in the affairs of other countries. However, once in a while there is an issue which moves one.

I have earlier spoken to you about Benazir Bhutto. Now the news that her mother, Mrs. Bhutto is being denied the necessary medical treatment in spite of her serious illness and deteriorating condition, is disturbing. The Bhutto family have not been friends of mine at any time. But in the present circumstances, it seems cruel not to allow Mrs. Bhutto to go abroad for medical treatment.

There is strong feeling in India, especially amongst our women. Several organizations are approaching me to take up the issue. I have written to President Zia-ul-Haq requesting him to consider this matter on purely humanitarian grounds.

With regards to your mother
I am sincerely
with regards.

The Rt. Hon. Mrs. Margaret Thatcher
Prime Minister and First Lord
of the Treasury
London

cc 720 JF
India

15 October 1982

INDIAN TRADE EXHIBITION

Thank you for your letter of 11 October suggesting that the Prime Minister should send a short message which would appear in the catalogue of the Indian Trade Exhibition, together with one from Mrs. Gandhi.

The Prime Minister has approved the message enclosed with this letter.

I am sending a copy of this letter and enclosure to John Holmes (FCO).

(A J COLES)

Jonathan Rees, Esq.,
Department of Trade.

MESSAGE FROM THE PRIME MINISTER

I greatly welcome the holding of this exhibition. During 1982 the Festival of India has revealed to many in the United Kingdom the richness of India's cultural heritage. The Trade Exhibition will similarly demonstrate India's striking industrial and technological achievements, and the opportunities for continued Indo/British economic co-operation to the benefit of both countries. I wish the exhibition well.

Margaret Thatcher

HL

14 October 1982

The Prime Minister has asked me to thank you for your letter of 11 October. Mrs. Thatcher is grateful to you for sending her back copies of the Festival Review.

With best wishes and thank you for this kind thought.

CAROLINE STEPHENS

Trevor Rawlins, Esq.

PRIME MINISTER

INDIAN TRADE EXHIBITION

The Indian Government are mounting a substantial trade exhibition at Olympia from 10 - 20 November. The Indian High Commission have asked whether you would be willing to send a short message which would appear in the exhibition catalogue along with one from Mrs. Gandhi.

I do not much like the text contained in the attached letter from the Department of Trade. Would you be prepared to send the message at Flag 'A'?

A.J.C.

12 October, 1982



From the
Minister for Trade

John Coles Esq
Private Secretary
10 Downing Street
London SW1A 0AA

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

11th October 1982

Dear John,

INDIAN TRADE EXHIBITION

The Indian government's Trade Fair Authority is holding from 10-20 November at Olympia a substantial trade exhibition. The object is "to project India's emerging industrial and technological capabilities and pave the way for identifying further opportunities for trade promotion and technological collaboration either bilaterally or with third parties." The Indians' idea is both to complement the Festival of India and to draw some useful publicity for the exhibition from the Festival's closing stages in November.

The Indian High Commission has just approached the Department of Trade to ask if the Prime Minister would be willing to send a short message to appear in the exhibition catalogue along with one from Mrs Gandhi. The latter will be to the effect that the exhibition should lead to the widening of India's contacts with the United Kingdom as well as the European Economic Community. In view of the continuing importance of our links, economic and otherwise with India, we recommend that Mrs Thatcher meets the Indian request. The text we suggest is as follows:-

"I greatly welcome the holding of this exhibition Just as the Festival of India has shown the richness of India's culture so the exhibition should reaffirm her industrial and technological prowess and contribute to the strengthening of Indo-British trading links."



Since the Indians have unfortunately left this approach rather late and need to know our reaction soon for printing purposes, I should be most grateful if you can give me as quick a reply as possible.

Yours ever,

Jonathan Rees

JONATHAN REES
Private Secretary to the
Minister for Trade (PETER REES)



SM

800 764 222

11 2 Oct 1992

Trustees

Sir Michael Walker GCMG *Chairman*
The Rt Hon Lord Aldington KCMG CBE DSO
Mr John Burgh CB
The Lord Chitnis
Sir John Cuckney
The Earl of Harewood
Sir Ronald McIntosh, KCB
H E Dr V A Seyid Muhammad
The Rt Hon Kenneth Robinson
Dr K S Shelvankar
Mr A J Shepperd



Festival of India

Patrons

The Rt Hon Margaret Thatcher MP
Shrimati Indira Gandhi

Festival of India Office,
Room 64/G Government Offices,
Great George Street,
London SW1A 1AA.
Telephones: 01 233 5986 and 233 3606

11.10.82

14

Dear Prime Minister

I have taken the liberty
of forwarding to you back copies of
the 'Festival Review'. I hope that you
will find them of interest, and that they
will give some indication of the
success and scope of events national

Yours faithfully

Trevor Rawlinson
(Editor)



The National Archives

LETTERCODE/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM (one piece/item number) <i>799</i>	
Extract/Item details: <i>Delhi telegram no. 796 to FCO dated 11 October 1982</i>	
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India

RR FCO (FOR ODA)

CONFIDENTIAL

29 SEP 1982

GRS 400

CONFIDENTIAL

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

NNNN

FOOD 011 29
RR ODA

CONFIDENTIAL

GRS 400

CONFIDENTIAL

FM DELHI 291250Z SEP

29 SEP 1982

TO IMMEDIATE DOT
TEL NUMBER OTTER 109 OF SEPTEMBER 29
RPTD FOR INFO TO FCO AND ODA.

FOLLOWING FOR BENJAMIN, PEP.

MY TWO IPTS: ORISSA STEEL.

1. MRS THATCHER DULY SUGGESTED, HALFWAY THROUGH BREAKFAST THIS MORNING, THAT WE SHOULD DISCUSS ORISSA STEEL. MRS GHANDI AGREED. THEREUPON, WITHOUT VISIBLE PROMPTING, MUKHERJEE SAID HE WOULD LIKE TO PROPOSE A WAY FORWARD. THIS TURNED OUT TO BE ALMOST EXACTLY THE PLAN ALEXANDER HAD ASKED ME TO PROMPT MRS THATCHER TO SUGGEST.

2. THE MUKHERJEE PROPOSALS DIFFERED FROM THE ALEXANDER PLAN AT (B)- (F) IN MY SECOND IPT ONLY AS FOLLOWS:

(I) HE DID NOT MENTION (D) OR (E).

(II) AS BEFITTED A FINANCE MINISTER, HE EXPANDED (F). THE BSC OFFER SHOULD BE ACCOMPANIED BY A FINANCIAL PACKAGE, WHICH (HE IMPLIED) SHOULD COVER THE FULL COST OF THE EQUIPMENT INVOLVED. THE PACKAGE WOULD NOT OF COURSE BE ALL AID. GOVERNMENTAL EXPORT CREDIT AND COMMERCIAL LENDING WOULD ALSO BE INVOLVED, AS BEFORE.

3. IN ANSWER TO A QUESTION FROM MRS GANDHI, THE PM SAID THAT SHE WELCOMED MUKHERJEE'S PROPOSALS. MRS GANDHI THEREUPON SAID THAT SHE TOO WELCOMED IT. WE SHOULD NOW PROCEED ACCORDINGLY.

4. ALEXANDER AND I WERE THEN INVITED BY THE TWO PRIME MINISTERS TO SUGGEST THE NEXT STEPS. I ASKED IF THE INDIANS WOULD LIKE THE MUKHERJEE PROPOSALS TO BE FORMALLY AGREED IN WRITING BETWEEN THE TWO GOVERNMENTS. THE ANSWER WAS YES. SO I SUGGESTED THAT I SHOULD NEGOTIATE AN APPROPRIATE EXCHANGE OF LETTERS WITH ALEXANDER SEMI COLON THEREAFTER, BSC COULD BE PUT INTO DETAILED CONTACT WITH THE INDIAN STEEL AUTHORITIES. THIS WAS AGREED.

5. IN ANSWER TO A QUESTION FROM THE PM, MRS GANDHI AND MUKHERJEE MADE CLEAR THAT, SO LONG AS THE INDIANS COULD DEAL THROUGH BSC AS THE LEADERS ON OUR SIDE, THEY WOULD REGARD IT AS ENTIRELY A MATTER FOR US TO DECIDE WHICH PARTICULAR BRITISH FIRMS WERE SLATED TO PROVIDE WHICH EQUIPMENT. THE IMPLICATION (NOT SPELLED OUT) WAS THAT DAVY COULD FEATURE IN THE LIST BUT SHOULD OPERATE THROUGH BSC AS INTERMEDIARY.

6. AT THE END OF BREAKFAST THE TWO PRIME MINISTERS DISCUSSED THE LINE TO BE TAKEN WITH THE PRESS ABOUT THE SCOPE OF THEIR DISCUSSIONS. IT WAS AGREED, INTER ALIA, THAT THE UNDERSTANDING THEY HAD REACHED ON STEEL SHOULD NOT BE REVEALED AT THIS STAGE. THE PRESS WOULD BE TOLD ONLY THAT THEY HAD NOTED WITH SATISFACTION THE AGREEMENT ON THE RIHAND POWER CONTRACT AND HAD DISCUSSED OTHER BILATERAL ECONOMIC ISSUES INCLUDING STEEL.

WADE GERY

NNNN

SENT AT 1423 29 DL

QSL PLSE ALL UP TO AND INCLDING 11 KKK

T

FPODA 012/29

RR ODA

CONFIDENTIAL

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

20 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.

WADE-GERY

NNNN

F 009 29

RR ODA

GRS 300

CONFIDENTIAL

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.

CONFIDENTIAL

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

NNNN



Caparo Group Limited

Caparo House, 103 Baker Street
London W1M 1FD

Telephone: 01-486 1417

Telex: 8811343

cf
no reply

15th September 1982

R18

Re: FESTIVAL FINALE

Dear Ronnie Munshi,

My Group of Companies is sponsoring the special performance that is being arranged for the evening of Sunday 14th November at the London Coliseum in order to mark the end of the eight months of the Festival of India in Great Britain 1982. I am consequently much hoping that you will be my guest on that occasion.

The purpose of this letter is merely to let you know, before the Advance Box Office for the event opens on 27th September, that a formal invitation to attend will be reaching you in two or three weeks time. No reply is therefore needed to this letter, but I do hope you will pencil the date in your diary meanwhile.

Kind regards,

~~Yours sincerely~~

Swraj Paul
Chairman

The Rt Hon Mrs Margaret Thatcher, MP, and Mr Denis Thatcher

Directors:
S Paul (Chairman)
A J Cavendish
Eldon Griffiths MP
J A Leek

Registered Office:
103 Baker Street, London W1M 1FD
Registered in England No. 1387694

CONFIDENTIAL



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;



CONFIDENTIAL

From the Secretary of State

(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.

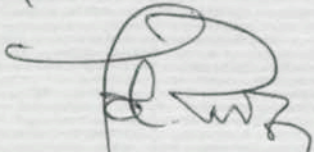
(f) Peter Rees has also himself maintained contacts with the NTPC, having met Mr Kapur, their Technical Director, and Mr Bami, their Finance Director, during their recent visits to this country.

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

a

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

CONFIDENTIAL

CONFIDENTIAL

file

BR

India

29 June 1982

INDIA

I enclose two copies of a dispatch from Sir John Thomson which have reached me here. Neither of them is, as I implied on the telephone, a top copy. But it still seems better that you should decide whether a dispatch from one of our representatives abroad is to be brought to the Prime Minister's attention.

JOHN COLES

John Holmes, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

India

HIGH COMMISSION OF INDIA
INDIA HOUSE,
ALDWYCH,
LONDON, W.C.2.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 598/82

Miss Pushpa Rege,
Special Assistant to
High Commissioner

No. LON/POL/123/1/82

5th April, 1982

cc. Rege set
OK

Dear Mr. Coles,

I have the honour to convey the following message from Prime Minister Smt. Indira Gandhi to the Rt.Hon. Margaret Thatcher, Prime Minister of United Kingdom:

ML 5/4
h.a.

BEGINS:

"Thank you for your message on the occasion of our Republic Day.

I reciprocate your sentiments and sincerely hope that the friendly relations between our two countries will strengthen further.

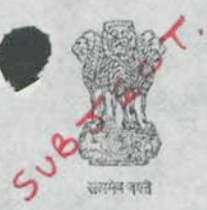
My good wishes, for your wellbeing and for the prosperity of the friendly people of your country.

INDIRA GANDHI. "
ENDS.

I shall be grateful if the message is brought to the attention of the Rt.Hon. Prime Minister as early as possible.

Yours sincerely,
P. Rege
(Pushpa Rege)

Mr. A.J. Coles,
Private Secretary to the Prime Minister,
10 Downing Street,
LONDON SW1.



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

CONFIDENTIAL

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:

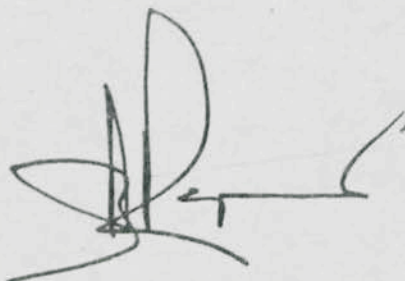
- (a) The total revised base estimate (February 1982 exchange rate) is US\$2,625M and therefore closely approximates to the letter of intent price estimate given above.
- (b) The total revised base estimate has been substantially increased to US\$3,196M by specification changes requested by the client 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

James Mc Donald, CBE
(Chairman & Chief Executive)
Northern Engineering Industries Limited
Tel. 0632 843191
Telex 537900

NEI House
Regent Centre
Newcastle upon Tyne
NE3 3PB

pps.

2nd April, 1982

The Rt.Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON S.W.1.

MS

Prime Minister

R3

A.S.C. $\frac{4}{4}$

cc. Mr. Holmes F/C.O.
Mr. Rhodes DOT.

WOL $\frac{5}{4}$

h-a.

Geo. Prime Minister,

Thank you very much for your letter of 31st March.

My colleagues and I are indeed grateful for your personal help and support, and that of the Government, over the Indian super thermal power station.

I assure you that we will be making every effort to ensure that this project is an outstanding example of British technology.

Our team leaves for Delhi tomorrow.

Yours Sincerely,

James Mc Donald.



10 DOWNING STREET

THE PRIME MINISTER

31 March, 1982.

ef file *L Po*
cc D/Trade
India

Dear Mr McDonald.

I am very glad to be able to let you know that the Government of India has agreed in principle to allocate us the 1000 MW power station, which you have been pursuing with our Projects and Export Policy team in the Department of Trade.

This opportunity has been secured with very attractive financial terms, and we want this to lead to continuing work for our companies in India's energy sector and for our industry generally.

I hope that you will therefore make this project an outstanding example of British technical and managerial skills.

I am so pleased. Every good wish.

Duncan McDonald, Esq.

Yours sincerely,

Rajiv Gandhi

ls



John

From the Secretary of State

John Coles Esq
Private Secretary
10 Downing Street
London SW1

Pl type with 20/3

29 March 1982

Dear John

INDIAN THERMAL POWER STATION

Following last week's discussions about NEI's bid for the Indian thermal power station, it was agreed that the Prime Minister should send a personal note to the Chairman of NEI, Duncan McDonald. Accordingly, I attach a draft.

Copies of this go to the Private Secretaries to the Foreign Secretary and the Secretary of State for Industry.

Yours sincerely,

JOHN RHODES
Private Secretary

File No.

DRAFT

Addressed to :

Duncan McDonald ESq
NEI Ltd
NEI House
Regent Centre
Newcastle Upon Tyne
NE3 3SB

Copies to :

Originated by:
(Initials and date)

Seen by :
(Initials and date)

Enclosures :

Type for signature of

.....
(Initials and date)

DEPARTMENT OF

I am very glad to be able to let you know that the Government of India has agreed in principle to allocate us the 1000MW power station, which you have been pursuing with our Projects and Export Policy team in the Department of Trade.

This opportunity has been secured with very attractive financial terms, and we want this to lead to continuing work for our companies in India's energy ^{sector} ~~problems~~ and for our industry generally.

I hope that you will therefore make this project an outstanding example of British technical and managerial skills.

SUBJECT

cc Master
e
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

John Holmes, Esq.,
Foreign and Commonwealth Office.

Ref: B06455

PRIME MINISTER

c Sir Robert Armstrong

Thermal Power Station for India

Your meeting at 2 pm today is to decide

(a) whether we should seek to clinch this deal while Mrs Gandhi is still here;

(b) how much extra aid we should in that context be willing to provide;

(c) where the money for such extra aid should come from.

2. The meeting will be attended by the Foreign and Commonwealth Secretary, the Secretary of State for Trade, the Chief Secretary, Mr Kenneth Baker and Sir John Thomson.

3. The meeting will have before it Mr Coles' letter to the Department of Trade of 22nd March circulating the assessment of prospects made by Sir John Thomson following your talk with him after your lunch for Mrs Gandhi on Monday; and the Foreign and Commonwealth Office letter of 23rd March to Mr Coles giving Mr Hurd's views and enclosing a paper by the FCO and ODA. Three of the briefs for Mrs Gandhi's visit are also relevant: ZMV(82) 13-15.

4. The Indians want three concessions in order to defend a decision to award the contract to us without international tender, which will be criticised by the Chairman of their Public Accounts Committee. There may be an element of try-on here, since they know that we are already offering exceptionally favourable financing terms for the contract, and that they must sign up with us by 15th May if they are to get the benefit of a $7\frac{3}{4}$ per cent rate of interest rather than 10 per cent. The three desired concessions are -

(i) They want us to make our normal disbursements from IDA 6, in the second and third as well as first years, and not to limit them pro rata because of the shortfall in American money.



65 (ii) They want our ATP contribution increased to £75 million over 4-5 years.

(iii) They want our regular aid programme increased to £115 million a year (in cash terms) over the next four years, to offset the fact that they (unlike other aid recipients) have to use part of it for RTA in lieu of debt service (see paragraph 7 below).

5. The FCO and ODA can agree to (i). The Department of Trade as the responsible Department are resistant to (ii). The ATP contribution approved by Ministers before Mrs Gandhi's visit was £51 million. Following negotiations last weekend DOT officials were prepared to recommend £62 million. They are now prepared to go to £65 million, but regard £75 million as unnecessarily high. At a pinch, Mr Biffen might agree to £70 million, which would probably do.

6. The real problem is (iii). The Indians are getting an exceptional £100 million in 1981/2 because we are underspent elsewhere. On present plans they will get £85 million in 1982/3, £82.5 million in 1983/4, £80 million in 1984/5 and £80 million in 1985/6. The ODA claim that these are fixed cash sums, which is no doubt over-cautious. They do not think India could absorb more than £100 million from us in 1982/3; they could manage to go to £90 million from within the existing Aid Budget, but would need new money above that and for any increase over the planned figures thereafter. Lord Carrington will press for an appropriate increase in the Aid Budget, ie up to £35 million a year extra if the Indian demand is to be met in full. If the meeting supports the Chief Secretary in resisting this, he will probably suggest that you write to Mrs Gandhi tomorrow agreeing to increase the aid programme for India but not saying by how much.

7. The RTA argument is complicated. In 1978, under OECD arrangements, we waived outstanding debt service for very poor countries. But in India's case the amount was so large (£30 million per annum) that we made them continue to pay it and gave them extra aid in compensation. The Indians still pay us £30 million a year under this arrangement. But they no longer believe that the aid we give them is that much larger



than it would otherwise have been. They have a point. But if we now agreed to forego their £30 million payment, our total Aid Budget would be that much the poorer and would need topping up with an equivalent amount of new money from the Treasury.

8. The power station contract will be worth £400 million and will involve about 5,000 jobs over three years.

HANDLING

9. It would probably be easiest to address, successively, the three issues in paragraph 1 above.

10. Should we close now? The Secretary of State for Trade, the Foreign and Commonwealth Secretary and Sir John Thomson should say whether they regard this as our best, and perhaps only, hope of getting the contract at all. Mr Baker should comment on the industrial and employment implications.

11. What extra ground bait should we offer? The meeting should focus on the three Indian requests in paragraph 4 above -

(i) The Chief Secretary and the Foreign and Commonwealth Secretary should have no trouble in agreeing to meet the IDA point.

(ii) How far could the Secretary of State for Trade agree to increase the ATP provision? Do the Foreign and Commonwealth Secretary and Sir John Thomson consider that would be enough? £70 million over 4-5 years may emerge as a compromise figure.

(iii) On the main aid figure, do the Foreign and Commonwealth Secretary and Secretary of State for Trade agree with Sir John Thomson that £115 million is near the Indian minimum? If not, what lesser figure do they suggest? If India could not absorb more than £100 million next year, should not we suggest a rising cash profile so as to allow for inflation? Eg £100 million in 1982/3 rising to £115 million in 1985/6? Though less than an annual average of £115 million, might this not do? Or would there be any advantage in offering to cancel the RTA arrangement, thus putting India on a par with everyone else?.



12. Should the Aid Budget be increased? The Foreign and Commonwealth Secretary should lead and the Chief Secretary should comment. Would they be willing, as a compromise to be sure of the contract, to find half the extra aid money for India from within the Aid Budget and half from new money? If the cash profile suggested above were acceptable, they would each have to provide about £50 million in cash over the next four years. Failing this, is Mrs Gandhi likely to be satisfied with an unquantified offer at this stage? If so, should some new money be provided when that offer comes to be implemented?

CONCLUSION

13. The meeting is likely to agree that every effort should be made to secure the contract this week. Your summing up will need to make clear

- how far we are prepared to go to meet Indian requests for aid concessions in that context;
- how any assurances we give should be conveyed to Mrs Gandhi;
- whether the overall Aid Budget should be increased, and if so by how much.

A handwritten signature in blue ink, appearing to read 'R L Wade-Gery'.

24th March 1982

R L WADE-GERY



10 DOWNING STREET

Prime Minister

Cabinet office advice will be
available for you to read over
lunch tomorrow.

A. J. C. $\frac{23}{3}$.

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

23 March 1982

ADL 25/3
t.c.

Dear John,

Thermal Power Station for India

As agreed yesterday, I am sending you a paper prepared by officials of both wings of the FCO which sets out the impact on the Aid Programme of providing the extra funds envisaged by the Indians, as regards our bilateral aid to India, the Aid and Trade provision, and accelerating our contributions to IDA. This is to help discussion at the Prime Minister's meeting tomorrow. It is intended to set out the consequences of Sir John Thomson's assessment of Indian requirements.

In Lord Carrington's absence in Brussels, the paper has been seen by Mr Hurd. Mr Hurd notes that officials have looked very carefully to see whether the extra amounts which would be entailed on the basis of Sir John Thomson's analysis could be accommodated within the existing programme. The paper shows that the larger amounts required for the project from the Aid and Trade provision can be found from within the total allocation we are proposing for each year. The extra cost of paying our contributions to IDA 6 on the original schedule, instead of keeping pace with the slower disbursements of the Americans, can also be absorbed.

But raising our bilateral aid to India to £115 million would involve an increase of at least £35 million per year. It would cause major dislocation to other programmes if this amount were met within the existing total. One consideration is therefore that it would require an addition to our aid funds. The same issue would arise if IDA 7 were to be brought forward.

/Although it is

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Although it is clearly important to assess the Indians' bottom line, in our view this will only be established after further negotiation. It is no less important to define our own bottom line, and the respective weight to be given to the financial package, to any improvement in the bilateral aid programme and a change in our position on IDA 6.

I am sending copies of this letter to John Kerr (HM Treasury), Richard Riley (Department of Industry), John Rhodes (Department of Trade), Sir Robert Armstrong and Sir John Thomson.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

INCREASED AID FOR INDIA: FINANCIAL IMPLICATIONS FOR AID PROGRAMME

Note by the Foreign and Commonwealth Office/
Overseas Development Administration

1. This note sets out the financial implications of providing a bilateral aid programme to India of £115 million per annum, and of increasing the Aid/Trade offer for the Thermal Power Station from the £51 million sanctioned by Ministers to £75 million as suggested by Sir John Thomson. It also considers the possible implications of meeting the Indian request to proceed with committing IDA 6 without US participation.
2. The present framework allocations for India are as follows, including local cost aid in lieu of aid debt relief but excluding our tied aid contribution to the Steel plant:

£ million cash	
<u>1982-83</u>	<u>1983-84</u>
85	82.5

The allocations for 1984-85 and 1985-86 are due to be settled in the aid framework discussions over the next two or three months which would also reassess the £82.5 million for 1983-84.

3. On the basis of preliminary planning, in which ODA officials have scrutinised the levels of multilateral aid with particular care, the probable overall levels of aid in cash terms available for country programmes in the years in question are as follows:

£ million cash			
<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
476	443	428	448

These figures are dependent on three crucial assumptions:

- i. that the ATP will be maintained at £55 million in cash each year (see below);
- ii. that the funds required for the multilateral programmes will not increase by more than £5-10 million in each year over the framework period as a result of the initiative to propose waiving the pro rata requirement on IDA 6 (and that we are not faced by major new EC initiatives in the aid field);

- iii. that Ministers will wish to insist on an unallocated reserve of £70 million, £110 million and £150 million in the years 1983-84 to 1985-86 respectively (these figures are 6%, 9% and 11% of total Framework resources in the three years).

It should also be noted that the figures from 1983-84 onwards are in cash and allow for a measure of inflation on the basis of assumptions agreed by Ministers.

4. If India were to receive £115 million a year over this period (plus the coastal steel plant) the effect on other bilateral programmes given presently planned aid levels would be extremely serious:-

	£ million, cash			
	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
Total as above	476	443	428	448
Less:				
India regular programme	115	115	115	115
India steel plant	12	38	35	23
	-----	-----	-----	-----
Available for all other countries	349	290	278	310

The resulting amounts which would be available for all other countries compare with a framework figure for the same group in 1981-82 of £410 million. It is the view of FCO/ODA that such reductions in bilateral aid would do the UK serious political damage and would be likely also to have adverse effects on our commercial and industrial interests in several of the countries affected. The squeeze on bilateral aid will of course be increased:-

- (a) by £25 million in 1984-85 and by £30 million in 1985-86 if the initiative on IDA 6 leads to IDA 7 (with or without US participation) being implemented one year earlier than currently assumed;
- (b) by further significant amounts to the extent that, following the recent meeting of 'E' Committee, the ATP were to be increased beyond the £55 million a year assumed above.

5. Against the background of the overall figures for country aid programmes given above it is probable that, to minimise political damage elsewhere, the regular aid programme to India would have to be reduced to at best £80 million in 1984-85 and 1985-86 assuming no increase in ATP. To maintain a programme of the size now envisaged would thus require an addition to the overall aid programme of at least £35 million in each year, again assuming no increase above £55 million in ATP and that IDA 7 does not start earlier than assumed. It will be noted that the figures for prospective future aid to India are considerably lower than those assumed by Sir John Thomson.

6. It seems doubtful whether in practice India could now use as much as £115 million in 1982-83 unless we were prepared to go back to offering maintenance aid (which has very little trade advantage). A more realistic figure for actual spending in that year might be £100 million, which would involve an extra £20 million above anticipated spending. Because of the expected shortfall on disbursements on the steel plant in 1982-83, ODA believe that they could provide £10 million of this sum but an addition of £10 million would be required from Central Contingencies.

7. As far as the proposal to increase the ATP offer for this project from the £51 million so far approved by Ministers to £75 million is concerned, it is the view of ODA officials that the higher amount could be met within even the £55 million annual provision for ATP mentioned above, provided that expenditure was phased according to the progress of the project. It is primarily for the Department of Trade to say whether they would be willing to accept that this project should have the degree of priority which this would imply.

Aid Policy Department

FCO/ODA

23 March 1982



B/F

u RTD
wade-bey

10 DOWNING STREET

From the Private Secretary

22 March 1982

Thermal Power Station for India

The Prime Minister and Mrs. Gandhi discussed the prospective Indian thermal power station contract for NEI at their plenary meeting this morning and subsequently over luncheon. Her impression is that our best chance of securing this contract lies in reaching agreement on it in principle before Mrs. Gandhi leaves London; and she is clear that we should make every effort to do so, not least because of the employment implications.

The Indians are bargaining hard at all levels. The problem is to identify their bottom line. At the Prime Minister's request, Sir John Thomson has prepared the enclosed note which addresses this problem.

The Prime Minister would like to hold an early meeting with those concerned, in order to consider two questions:

- (a) Is Sir John Thomson's analysis of Indian minimum terms accepted?
- (b) How can we meet it?

We will be getting in touch with you and others concerned about the exact time of the meeting.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), John Kerr (H.M. Treasury) and Richard Riley (Department of Industry).

A. J. COLES

John Rhodes, Esq.,
Department of Trade.

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Thermal Power Station

Over the past 48 hours I have had a number of informal talks with the Indian Permanent Secretary to the Treasury and with Mrs Gandhi's Principal Adviser. It is clear that the Indians are prepared to settle in principle here and now that the thousand megawatt thermal power station (value not less than £400 million to the United Kingdom) should come to us.

However they need a quid pro quo to justify to their Public Accounts Committee and Parliament giving us a contract without going through international competition. The minimum price seems to be that we should up our contribution from the aid/trade provision for this project from the figure of £62 million, where I understand it now stands, to £75 million over a 4/5 year period, ie an increase of approximately £3 million per annum. The rest of the price is in the regular bilateral aid budget for India. After negotiations we have brought them down to asking for £115 million per annum inclusive of RTA and the technical co-operation budget for the four years beginning 1982-83. We might knock them down by £2 or £3 million per annum, but realistically we have to reckon on the sums just mentioned.

I recognise the tightness of the aid budget. But it looks as if we might in practice be going to meet their requests anyway and it would be a pity not to get the full credit for it. In the aid year just ending we shall be paying £100 million approximately on the regular aid budget. Given inflation and the fact that the Indian figures are all acknowledged to be in cash terms (not constant pounds), we are in any case likely to find ourselves paying something like the £115 million for which they are asking at least in the years 1984-85 and 1985-86. In short, they are asking us to find only a small sum in extra money and the value to us now of the contract for NEI is politically very great. The indications are that it will lead on to other large contracts.

J A THOMSON
22nd March 1982

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~~Prime Minister~~

A.J.C. $\frac{22}{3}$

Mr. John Coles,
10 Downing Street.

c.c. PS/Minister for Trade
PS/Minister for Industry
Sir Peter Preston, ODA.
Mr. Giffard, FCO.
Mr. Caines, DOT.
Mr. Bonney, Treasury.
Mr. Benjamin, DOT

India: Super Thermal Power Station

As you know from Sir Peter Preston's report of the meeting with Mr. Malhotra on 19 March, there were further discussions between the Department of Trade (Mr. Benjamin and myself) and Mr. Sivaraman of the Department of Economic Affairs (DEA) yesterday. A report is attached.

Our conclusion was that with the improvements described in my note, involving some additional ATP of (£9.5 m) and RTA local cost aid (£10 m), the financial package is now seen as a sufficiently attractive basis for a negotiated contract for the power station project, when considered in isolation. However, the DEA is continuing to place the decision on this in the overall context of relations with Britain on aid matters.

Miss M.T. Neville-Rolfe,
Projects and Export Policy,
Department of Trade.

21 March, 1982.

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India: Super Thermal Power Station and Associated Projects
Discussions on 20 March, 1982

At Sir Peter Preston's meetings with Mr. Malhotra and Mr. Sivaraman of the Department of Economic Affairs (DEA) on 19 March it was agreed that there should be this further discussion between the Department of Trade and Mr. Sivaraman about the DEA's request that the financial package for the power station and associated coal mine and transmission line be improved.

2. As Mr. Malhotra had on the previous day, Mr. Sivaraman set the issue firmly in the context of wider Indian concerns about reductions in the UK's bilateral aid to India. The DEA faced severe presentational problems in giving Britain a negotiated contract for such a massive project (especially following the award of the steel plant to Davy); it was looking for justification for this, both in terms of a demonstrably most favourable financial package for the projects and improvements generally in the UK-India aid relationship.

3. On the financial package, Mr. Sivaraman pointed out that this needed to compare favourably with other offers India had received. The DEA's particular concern was the requirement for eurocurrency borrowing in the UK offer; this would diminish India's borrowing capacity under the IMF's guidelines, at a time when substantial borrowing, e.g., to develop oil resources would be needed. Other soft financing offers available did not have this drawback. We emphasised that the resources available to improve the package were severely constrained; there was no possibility of aid to substitute fully for eurocurrency, but we were willing to consider flexibly what could be done to achieve improvements in this area.

4. Mr. Sivaraman proposed that the package be considered excluding the transmission line: no decision had been taken about this, and it might well be sourced from within India. On this basis, an improved package along the following lines was discussed (summarised in the table attached). We made it clear that this would be subject to Ministerial approval.

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/-(a)

- (a) UK content would be increased by £30 m by including with the power station the substation which had been included in the transmission line (£15 m) and sourcing all the imported coal mine equipment from the UK (this is now known to be possible). On the same basis as the rest of the power station/coal mine this would attract 15% ATP (an additional £4.5 m) and 100% ECGD cover.
- (b) RTA: Mr. Sivaraman proposed that of the uncommitted RTA funds available up to 1988, up to £65 m should be used for these projects, i.e., the £10 m proposed for the transmission line and a further £10 m should be added to the original proposal for the power station/coal mine.
- (c) This would leave some £50 m to be met from eurocurrency borrowing. After consultation with Lazards, we indicated that this could be covered by a fixed rate longterm (12 year) commercial loan, at prevailing eurobond rates. This would leave India's eurocurrency borrowing capacity unaffected under the IMF guidelines. We also indicated that in order, in effect, to soften the terms on this element somewhat, a further £4-5 m of ATP might be found for the project.

5. We had further discussion with Mr. Sivaraman after he had consulted Mr. Malhotra about these projects. He indicated that, on its merits taken alone, a package along these lines would be very attractive. However, Mr. Malhotra remained very concerned about the overall picture of the relationship with the UK on aid and project issues; and his concerns could not be met by the kind of improvement that had been proposed to the package alone.

Superthermal power station and coal mine revised financing proposal

	£ m
Power station: UK content including sub-station	285.0
Coal mine: increased UK content	83.0
Local costs: both projects	175.0
	<hr/>
	543.0
 <u>Financed by:</u>	
Export credits	368.0
ATP aid	60.2
RTA aid	65.0
	<hr/>
	493.2
	49.8
	<hr/>
	543.0

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h-a.
M 2/3

~~PS/Prime Minister~~

cc: PS/Secretary of State for Foreign
and Commonwealth Affairs
PS/Secretary of State for Trade
PS/Chief Secretary
PS/Mr Marten
Mr Giffard, FCO
Mr C Benjamin, PEP, DOT
Mr Bonnie, HM Treasury
Sir John Thomson
PS/Mr Hurd
Mr M St Burton SAD FCO
Mr C R O Jones, ODA

MRS GANDHI'S VISIT : THERMAL POWER STATION

1. Mr Malhotra, Secretary of the Indian Department of Economic Affairs, arrived at very short notice in London on 19 March with the purpose of talking to officials in advance of Mrs Gandhi's arrival. His aim was to urge us to make certain concessions on the size of the aid programme, IDA payments and the financial package for the thermal power station thus (he implied) creating a more favourable climate for the award of the contract for the power station to the UK contractor, Northern Engineering Industries Ltd, without going to international tender. The final decision on the award will in fact be Mrs Gandhi's. Although she will almost certainly not want to discuss the power station with the Prime Minister she will raise the IDA question.

2. The meetings with Mr Malhotra were chaired by myself and attended by Sir John Thomson and representatives of the Treasury, FCO, and Department of Trade. A summary of the points raised and positions reached follows:

Size of our Aid Programme in India

3. This subject is covered in brief ZMV(82)14. Our programme declined from £140 million in 1980/81 to about £100 million in the year just ending. The Indians have been told that the target figure for next year is £85 million and the likely spending figure £75 million. Mr Malhotra argued that the cash value of the programme /should

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should remain at £100 million and that that level should be taken to exclude additional cash spent on commercially valuable projects like the steel plant and the thermal power station and also the local cost aid deriving from the RTA agreement. This last is likely to amount to £35 million in the current financial year and some £42 million next year and could go up to a level of £50 million quite soon. So what he was demanding was in effect a total aid programme of up to £150 million but excluding both the steel plant and the power station.

4. I took the line that Ministers were now considering the whole shape of the future aid programme and individual demands on it. However, I was not at all encouraging to the idea that the Indian share could be significantly higher than the figure we have already given them (we told them that we hoped that India would continue to receive about that amount in cash in future years). There is no doubt that the Indians consider that if one deducts from our total aid to India the local cost aid, which was originally promised to the Indians as additional to the normal aid programme, the remainder of the programme will sink to a very low level indeed - not much more than £40m next year. This is factually correct. Resentment is certainly felt. The Indians might be mollified if we indicated an interest in moving up to a cash level of about £100m gross. If the Prime Minister wishes to be more forthcoming on the amount of future aid to India, it should be noted that to maintain the Indian programme at a cash level of even £100 million could, within the total aid programme limits as now set, only be done at the expense of other bilateral programmes already greatly squeezed or at the expense of other items to which we are not legally committed, such as the Aid and Trade Provision.

Financial package for Thermal Power Station

5. The British content for exported goods and services, if we get this contract, is likely to be £350-450 million. We have already offered the Indians £50.7 million grant aid under the Aid and Trade Provision and £55 million in local costs. Mr Malhotra wanted us to give still more favourable terms.

/6. We explained

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6. We explained to Mr Malhotra that we had already on offer a financially attractive package, taking into account the aid and export credit terms. We could look at the details again. It might be possible, for example, to manoeuvre somewhat about the payment for different parts of the package or to negotiate on the timing of payments. But any revised proposals would have to go to Ministers (Treasury Ministers have already expressed doubts about the size of the concessional element in relation to the whole). Further detailed discussions are to take place tomorrow (20 March) at the Department of Trade and if anything positive emerges DOT will provide an additional brief.

IDA (International Development Association)

7. See brief ZMV(82)13. Following the South/South Conference in New Delhi, Mrs Gandhi presents herself as the chief Third World spokesman on IDA (India is chief sufferer from IDA commitment cuts). She is lobbying widely to get other donors not to tailor their IDA commitments to the (temporarily) reduced US subscriptions.

8. Mr Malhotra strongly urged the UK to release its subscription for commitment in three equal tranches as it would have done if the US had not fallen behind in depositing its notes; and that we should actively persuade other lending donors to do likewise. He acknowledged that we had been helpful in the past year in persuading other donors to release their first tranche of IDA 6 before the Americans paid up in 1981 and that we had supported firmly a 40% share of IDA 6 for India.

9. We explained - and the Prime Minister might like to take a similar line with Mrs Gandhi - that we recognise the strength of feeling amongst developing countries on this point. However, proportionality (the release of our subscriptions pro rata with the US) is the only way we can exert any leverage on the US in this replenishment. Other donors (notably the Germans) are very unhappy at the way US contributions have lagged behind in past replenishments and are insisting on tougher conditions in all such international financial institutions. If we drop the pro rata principle in IDA, it will certainly disappear in the other institutions. It is thus in the best long term interests
/of developing

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of developing countries as a whole not to abandon this policy. This would remain our line for the IDA Deputies' Meeting on 6 April, unless Ministers wished to change it.

10. If Mrs Gandhi remains unconvinced by these arguments, the Prime Minister might say that she notes her strong views and will reflect on them in preparing for the exchange of views with other major donors at the Deputies' meeting. I would advise that no undertaking to revise our position should be given since we believe our arguments are sound. However, obviously in any future replenishment these arrangements will need to be re-examined. In any case, we shall continue to argue for a 40% share of IDA for India and for substantial Indian access to the ordinary lending of the Asian Development Bank after its current replenishment of capital has been negotiated.

/ 11. As this IDA point seems likely to figure prominently, I attach a suggested line to take which amplifies the existing brief.

CONCLUSION

12. To summarise, we could, if necessary, offer some possibility of improving the aid offer on the power station though detailed discussions would be needed. We can offer no prospect of significant increases in our bilateral aid above the levels presently planned. On IDA we should defend our line but if pressed hard agree to reflect further. We have to bear in mind that whatever concessions we might make during this visit we are unlikely to get a firm commitment on the power station here and now.

T. P. Ho
(FCO Resident Clerk)

for Peter Preston
Overseas Development Administration
19 March 1982

(Retyped at ODA's request by FCO)

I D A

1. We fully recognise the problems for India and other recipients of the reduced commitment authority in the second year of IDA 6.
2. This results from the failure of the US to obtain Congressional appropriations. It was because of similar past failures that the IDA 6 Agreement negotiated in 1979 made a specific provision for restricting the commitment of contributions by other donors pro rata to US contributions.
3. The whole purpose of this provision was to maintain maximum pressure on US to keep up contributions. If we and other major donors now waive the rule about pro rata commitment that pressure disappears and no such provisions in future will be credible.
4. We have believed it to be in best interests of IDA beneficiaries to have proper and effective burden-sharing provisions. If we abandon this we believe future replenishments of IDA and other similar funds will be made more difficult to negotiate at satisfactory levels.
5. We know Mrs Gandhi has discussed this with other developing countries recently. Have they weighed carefully the risks of taking all the pressure off the US and of the difficulties of future replenishments?
6. (IF MRS GANDHI MAINTAINS HER PRESSURE)

We will certainly reflect on what has been said in preparing for discussions in Washington in April

/and take



and take into account strong Indian views in talking to other donors. But there is a balance to be struck between short-term and long-term considerations.

7. In any case we shall continue to press for 40% of IDA 6 commitments to go to India over the whole period.

ADVANCE COPY

CREDA 96

IMMEDIATE DELHI

MR. BENJAMIN 21

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TO IMMEDIATE DOT (FOR BENJAMIN)

TELEGRAM NUMBER CREDA 96 OF 17 MARCH 1932

AND TO IMMEDIATE ODA

MY TELNO 298: MRS GANDHI'S VISIT: THERMAL POWER STATION

1. I HAVE JUST HAD NEARLY AN HOUR ON THIS SUBJECT WITH THE MINISTER OF FINANCE SUPPORTED BY HIS PERMANENT SECRETARY. AS I WAS LEAVING, THE MINISTER OF ENERGY AND THE TWO MOST SENIOR MEMBERS OF THE PRIME MINISTER'S STAFF ASKED FOR A MEETING TO DISCUSS THE PROJECT. I BELIEVE THERE MAY BE A SECOND MEETING THIS AFTERNOON WITH MRS GANDHI. THIS PROBABLY ACCOUNTS FOR THE WAY IN WHICH HER OFFICE HAVE KEPT ON POSTPONING THE TIME FOR MY MEETING WITH HER. I SHALL PROBABLY HEAR MORE THIS EVENING. I TOLD THE FINANCE MINISTER THAT IF HE JUDGED IT HELPFUL I WOULD POSTPONE MY DEPARTURE FROM DELHI.

2. IN THE LIGHT OF THE PRIME MINISTER'S BRIEFING MEETING THIS AFTERNOON YOU MAY LIKE TO KNOW THAT THE FINANCE MINISTER RAISED FOUR POINTS. SHORN OF CIRCUMLOCUTION THEY WERE

(A) THE FINANCIAL PACKAGE SHOULD BE IMPROVED:

(B) THE TOTALITY OF BRITISH AID TO INDIA SHOULD BE MAINTAINED AT NOT LESS THAN £100 MILLION PER ANNUM AND SHOULD NOT ALL BE TIED

54/3

TO MAJOR PROJECTS:

(C) WE SHOULD DROP OUR INSISTENCE ON PROPORTIONALITY FOR IDA 6 AND URGE THE FRENCH, GERMANS AND JAPANESE TO DO LIKEWISE:

(D) WE MUST PROVIDE THE INDIAN GOVERNMENT WITH COMPELLING QUOTABLE REASONS (NO DOUBT SUCH AS THE ABOVE) AS A RATIONALE FOR NEGOTIATING WITH THE UK SUCH A HUGE PROJECT (US DOLLARS 1.5 BILLION) GIVEN THAT (I) SMALLER PROJECTS GO TO GLOBAL TENDERING; (II) OTHER COUNTRIES HAVE MADE SIMILAR OFFERS TO CURB; (III) THE INDIAN DOMESTIC PRODUCERS WILL SCREAM IF WE GET IT.

3. EVEN IF THE DECISION SHOULD GO OUR WAY IN PRINCIPLE I DOUBT IF MRS GANDHI WILL WANT TO DISCUSS THE THERMAL POWER PROJECT AS SUCH. THAT IS NOT HER USUAL STYLE. BUT SHE WILL PROBABLY WANT TO DISCUSS THE IDA 6 POINT RAISING IT OSTENSIBLY ON BEHALF OF ALL DEVELOPING COUNTRIES. WE SHOULD ALSO BE FULLY BRIEFED ON POINTS (A) AND (B). IF WE HAVE ANYTHING TO SAY ON THEM DURING THE COURSE OF THE VISIT I SUSPECT IT WILL BEST BE DONE BY ME TO ALEXANDER, MRS GANDHI'S PRINCIPAL SECRETARY, UNLESS OF COURSE WE CAN ACCEPT THEM FULLY AND FORMALLY IN WHICH CASE THE PRIME MINISTER MIGHT LIKE TO SAY SO TO MRS GANDHI.

4. THE SITUATION IS ON A KNIFE EDGE. I HOPE WE SHALL REFRAIN FROM ANY UNNECESSARY IRRITANTS E.G. THE POINT IN MY TELNO 303. PLEASE PASS A COPY OF THIS TO COLES AT NO.17.

THOMSON

NNNN



File

10 DOWNING STREET

THE PRIME MINISTER

4 March 1982

Dear Sir Michael,

Thank you very much for your letter of 2 March. I am delighted that your fund raising activities have been so successful and that the reception I gave last July was of some help in this respect. I am sure that the Trustees must feel pleased at the result of all the hard work they have devoted to the Festival and I congratulate them.

Naturally, I share your aim that the Festival itself should be an outstanding success. I much look forward to participating in some of the opening events later this month and I shall follow the Festival's fortunes closely thereafter. Best of luck.

Yours sincerely,

(sgd) MT

Sir Michael Walker, G.C.M.G.

EC

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Festival of India

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Great George Street,
London SW1A 1AA.
Telephones: 01 233 5986 and 233 3606

2 March 1982

The Rt Hon Mrs Margaret Thatcher MP
10 Downing Street
London

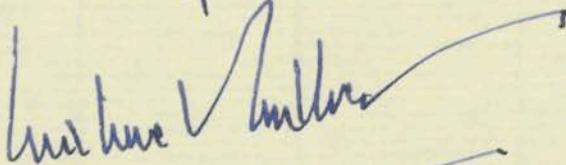
Dear Prime Minister,

Now that we are getting close to the start of the Festival of India I thought you might like to know how our fund raising campaign has been going since you gave your Reception for us last July. I am glad to say that our appeal has been notably successful and that we are well on our way to topping the £400,000 mark which is a good deal more than our original target. Even though costs have also gone up, our financial requirements are well assured. But what I think will be of particular interest to you is that out of this comparatively large sum of money over a quarter has come from companies who were invited to your Reception. In very large measure therefore our fund raising success has been directly attributable to your personal influence in giving our appeal such an effective send off and on behalf of all the Trustees I should like to renew to you my most grateful thanks for your splendid support.

After achieving our financial target our main concern is of course to translate this into a really successful

/Festival.

Festival. We are now in the midst of the busy - and rather anxious - run-up stage to the opening week towards the end of this month. At present our plans seem to be quite well on course and we greatly look forward to the honour of your presence at the three main events during that week which should ensure that we get away to a flying start.

Yours sincerely

Michael Walker

Michael Walker
Chairman
Festival of India Office



5 MAR 1982

(CAF)
India

file

ds



10 DOWNING STREET

From the Private Secretary

26 February 1982

I wrote to Roderic Lyne on 5 January informing him that The Rt. Hon. John Peyton MP was planning to visit Delhi and Bombay and asking that they should give him appropriate assistance. John Peyton has now returned and has written to express his particular gratitude to both the Foreign Office and our missions in Delhi and Bombay for the help they gave. I should be grateful if this could be passed on.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

5

The Rt. Hon. John Peyton, M.P.

JOHN COLFS



HOUSE OF COMMONS
LONDON SW1A 0AA

24th February 1982

Ian

I would be grateful if you would thank the Prime Minister for her help over my recent visit to India. It was an altogether enthralling experience.

I am particularly grateful to those in the Foreign Office in London and in the High Commission in Delhi and Bombay for their help.

Ian Gow
Ian

Ian Gow, Esq., M.P.



FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

KENNETH BAKER MP

The Rt Hon Leon Brittan MP
Chief Secretary
HM Treasury
LONDON SW1

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212
SWITCHBOARD 01-212 7676

6401

cc PS/Secretary of State
PS/Secretary
Mr Gill
Mr Benjamin
Mr Havelock
Miss Neville-Rolfe
Ms Scrope (on file)

23 February 1982

CONFIDENTIAL

Prime Minister

To note

Dear Leon,

INDIA: 1000MW THERMAL POWER STATION

In his recent letter to you, John Biffen reported the present position in our negotiations with the Indians on these projects.

I was pleased to learn that you had given your immediate approval for the increase in aid. The power station projects are of the greatest industrial and commercial importance to us.

While in India last month, I called on Mr Mahajan, the Indian Minister of State for Energy, and Mr Sah, the Chairman of the National Thermal Power Corporation. They made it clear that of the many national offers they had received - from Japan, France and Germany amongst others - they were well inclined to consider the British proposals on technical grounds, subject to us providing a financial package which recognised their economic constraints.

The main power station contract is unique. As the Government of India were not prepared to choose between the alternatives, the main British power generation companies have provided for the first time ever, joint proposals embodying their individual strengths.

The projects could bring some 40,000 man-years of work to our heavy engineering industries, mostly over the next two or three years. Much of this employment will be in Northern Ireland and our Special Development Areas in Scotland and the North. If the transmission project comes to fruition, as well as the power station with its associated coalmine, the total UK content could be as high as £444 million. However, I do not think it likely that, in the event, the Indians will be prepared to release all the work on the transmission lines, the major part of which can

M29/M29ACP

India

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[Handwritten scribble]

A.F.C. 24/2
h.a. 25/2



CONFIDENTIAL

be manufactured in India. As work on the transmission lines will not start for some 18 months after the work on the station and mine, we have some time in which to influence the decision on this.

On the other hand, I believe that the auguries bode well for signature by 16 May of the power station, including the associated coalmine contract. Our agreement to maintain the proportions of assistance for the enlarged project will of course be a major factor in this.

I am copying this letter to the Prime Minister, Peter Carrington, John Biffen and Neil Marten.

Tomlinson

Kenneth

KENNETH BAKER

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24 FEB 1982



From the Secretary of State

CONFIDENTIAL

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
London, SW1P 3AG

23 February 1982

Dear Leon,

INDIA: 1000 MW THERMAL POWER STATION PROJECTS

Many thanks for your most helpfully prompt reply to my letter of 16 February.

As a result our officials were able to have a constructive meeting with the Department of Economic Affairs in Delhi, and in consequence technical negotiations are being stepped up. We are entirely at one with you about the negotiations needing to have a fruitful outcome by 16 May, and indeed that has been one of our levers all along to encourage the Indians to move more quickly. In addition, of course, we are also encouraging the Indians to take negotiations as far as possible towards a firm commitment by the time of Mrs Gandhi's visit next month.

Clearly, as you recognise the projects will have an extremely important impact on our heavy engineering industries in the difficult next few years. Furthermore, this is the first instance when our power generation companies have combined forces and will help to establish them securely in the Indian and similar markets. I would not wish to prolong unnecessarily this exchange of views, but on an "opportunity cost" basis it does seem legitimate to treat Retrospective Terms Adjustment aid on a different basis to ATP and ECGD support, since we have a commitment with the government of India to approve

CONFIDENTIAL



From the Secretary of State

CONFIDENTIAL

expenditure of this aid. I understand that the lack of worthwhile opportunities is already causing embarrassment. Setting this aside, the combination of ATP and ECGD support is within the normal range. The level of support is the minimum permissible under the Consensus guidelines for cases exempt from prior notification.

Once again my sincere thanks for the great speed at which you answered my request.

I am copying this to the recipients of yours.

Yours

John Biffen

JOHN BIFFEN

CONFIDENTIAL

22 February 1982

Thank you very much indeed for your kind gift of tea which will give me and my family much pleasure. I much look forward to seeing you on several occasions during the course of the visit to London of the Prime Minister of India.

JOHN COLES

His Excellency Dr. V.A. Seyid Muhammad

Co.

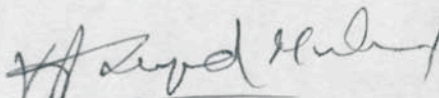


INDIA HOUSE
ALDWYCH
LONDON
WC2B 4NA

WITH BEST COMPLIMENTS

FROM

THE HIGH COMMISSIONER FOR INDIA


(Dr. V.A. Seyid Muhammad)

India BIC



file

10 DOWNING STREET

From the Private Secretary

18 February 1982

INDIA: 1000MW THERMAL POWER STATION

The Prime Minister has seen and taken note of the minute of 16 February from the Secretary of State for Trade to the Chief Secretary.

I am sending copies of this letter to Terry Mathews (Chief Secretary's Office), John Holmes (Foreign and Commonwealth Office), Michael Power (Overseas Development Administration), and Jonathan Spencer (Department of Industry).

A. J. COLES

John Rhodes, Esq.,
Department of Trade

SR



N.S.P.N.

MR 15.
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P.a.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Biffen MP
 Secretary of State
 Department of Trade
 1 Victoria Street
 London SW1H 0ET

17 February 1982

2 Jan.

will repeat if required

INDIA : 1000 MW THERMAL POWER STATION AND RELATED PROJECTS

Thank you for your letter of 16 February.

As you recognise, the overall cost of the financing terms you propose to help secure these orders is very high. A subsidy level of 55 - 61% is well above the average for ATP cases and the use of some £50 million from the ATP on this one project risks denying funds for other orders which require a more modest level of government support. In view of the importance of the business and the degree of commitment we have already entered into on the previous offer, I do not propose to stand in your way if you wish to give it overriding priority for the available ATP funds. I must make it clear, however, that I would not regard any resulting pressure on the ATP allocation as an argument for increasing the total amount allocated for ATP.

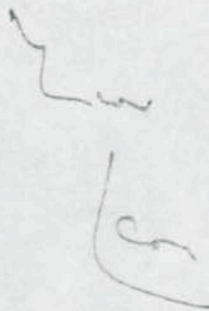
On the question of how the overall subsidy is calculated, I cannot agree that it is right to ignore the local costs support under the Retrospective Terms Adjustment (RTA) agreement with India. Although, as you imply, we are committed to allowing the Indians to use the equivalent of their loan service payments on past aid loans for local costs linked to new imports from the UK, in practice RTA payments must be accommodated within the overall ceiling for the aid programme. Thus, if in any given year RTA money is not spent on local costs in India, it is in principle available for use elsewhere in the aid programme. It is therefore incorrect to say that RTA carries no opportunity cost, although I would accept that it might be politically difficult to refuse RTA for local costs, if we won these contracts.

You also raise the possibility of spreading the real value of both the ATP and the RTA payments over a 15 year period to coincide with the repayment period for the commercial loans. I realise that you are not seeking agreement to this proposal at

this stage but I should say that this proposition will need to be considered very carefully.

On the export credit aspects, I am content with arrangements for the Section 2 limit agreed by officials in EGC, though I would note that the potential exposure involved is very high. It must be clearly understood that if either of these two very large and important projects are not secured, the export credit cover will not be automatically available for other business: in this situation the market limit will need to be further reviewed. On interest rates, there can of course be no question of holding the old Consensus rate of $7\frac{3}{4}\%$ for the steel mill, power station and coal mine if contracts are not signed by 16 May.

I am copying this to the recipients of your letter.



LEON BRITTAN

11 FEB 1962

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PS TO PM NO 10 DOWNING STREET

RESTRICTED

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GRS
RESTRICTED
FRAME EXTERNAL
FM FCO 161600Z FEB 82
TO PRIORITY DELHI
TELEGRAM NUMBER 159 OF 16 FEBRUARY
INFO SAVING UKREP BRUSSELS

INDIAN TEXTILES

1. FOLLOWING A GROWTH IN THE IMPORT OF CATEGORY 29 WOMENS WOVEN SUITS FROM 250,000 IN 1979 TO 800,000 PIECES IN 1981 (MILL MADE QUOTA 123,000 IN 1979/128,000 IN 1981) CUSTOMS CONDUCTED A SPECIAL EXERCISE ON EIGHT RECENT CONSIGNMENTS ALL OF WHICH WERE FOUND TO BE FRAUDULENTLY DECLARED AS HANDLOOM GARMENTS.
2. THEY INFORMED THE DOT LATE FRIDAY 12 FEBRUARY THAT THEY INTENDED TO VERIFY ALL IMPORTS COMMENCING MONDAY 15 FEBRUARY BUT DELAYED ACTION TO TODAY 16 FEBRUARY TO ENABLE MINISTERS AND THE PRIME MINISTERS' OFFICE TO BE INFORMED. FURTHER CONSIGNMENTS WERE IMPOUNDED TODAY AND IMPORTERS ARE BEING QUESTIONED BY CUSTOMS OFFICIALS.
3. THE MINISTER (ECONOMIC) PRASAD AT THE INDIAN HIGH COMMISSION WAS INFORMED TODAY BY THE PERMANENT SECRETARY DOT OF THE CUSTOMS ACTION. PRASAD EXPRESSED DEEP CONCERN AND OFFERED THE COOPERATION OF THE GOVERNMENT OF INDIA IN ESTABLISHING THE BONA FIDES OF GENUINE HANDLOOM ARTICLES POINTING OUT THAT THE INDIAN AUTHORITIES DID NOT WISH TO BE PARTY TO FRAUD. IN RESPONSE TO A QUERY HE WAS ASSURED THAT INDIAN IMPORTERS WOULD NOT BE SUBJECTED TO HARASSMENT.
4. IMPORT VOLUMES OF CATEGORY 29 ITEMS FLUCTUATE WIDELY BUT HAVE BEEN AS MUCH AS POUNDS 70,000 IN SOME WEEKS AND FOR THE WHOLE OF 1981 WERE POUNDS 3.63 MILLION. THERE IS NO DOUBT THAT MILL MADE GARMENTS HAVE BEEN DECLARED AS HANDLOOM IN ORDER TO EVADE QUOTA RESTRICTIONS, AND CUSTOMS ARE UNDER AN OBLIGATION TO ENFORCE THE LAW.
5. WE WILL LIASE CLOSELY WITH DOT/DOI AND CUSTOMS AND ADVISE

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RESTRICTED

/you

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49949 - 2

YOU OF DEVELOPMENTS. YOU MAY WISH TO ADVISE THE INDIAN
AUTHORITIES OF WHAT HAS TAKEN PLACE.

6. BY AN UNFORTUNATE COINCIDENCE CONSIGNMENTS OF OTHER INDIAN
TEXTILES HAVE BEEN HELD UP AT HEATHROW BECAUSE OF A
DISPUTE RELATED TO DOCUMENTATION AND THEIR ADMISSABILITY UNDER
THE 1981 OR 1982 QUOTA YEAR. FOLLOWING DOT INTERVENTION THEY
HAVE BEEN RELEASED.

7. THE UK IS NOT ALONE IN THE EC IN HAVING PROBLEMS WITH INDIA
OVER SUSPECTED FRAUD IN THE TEXTILE SECTOR. THE COMMISSION IS
AWARE OF THE SITUATION AND WILL SHORTLY BE DISCUSSING WITH MEMBER
STATES HOW TO RESPOND TO AN INVITATION TO SEND A TEAM TO INDIA
TO EXAMINE HANDLOOM AND FOLKLORIC PRODUCTION. FOR YOUR OWN
INFORMATION THE UK WILL PROBABLY SPEAK IN FAVOUR OF A POSITIVE
RESPONSE BUT THIS INITIATIVE IS UNLIKELY TO BE OF ANY HELP IN
RESOLVING THE CURRENT PROBLEM.

CARRINGTON

ADDITIONAL DISTRIBUTION

FRAME-EXTERNAL

SAD

ECD(E)

PS/MR HURD

MR DONALD

MR HANNAY

INDIA ECONOMIC

RESTRICTED



From the Secretary of State

Prime Minister

(2)

You may wish to note the developments relating to the major contract in India.

16 1/2

Chief Secretary
H M Treasury
London SW1A

16 February 1982

Dear Leon,

INDIA: 1000MW THERMAL POWER STATION
PROJECTS/EXPORT CREDIT LIMITS

You and colleagues will wish to be aware of recent developments on these related projects (with a maximum initial UK content of £444m), and the associated implications for export credit limits. Our objective is to reach agreement in principle with the Indians in time for Mrs Gandhi's visit to London in March.

We have been pursuing arduously a negotiated contract for the power station project for the past 18 months. Neil Marten agreed in principle last April that up to a maximum of £40m of ATP could be made available for the power station and the associated open cast mine. In the event only £31m was indicated in the proposals preceding the relevant Memorandum of Understanding signed during the Prime Minister's visit. In addition export credits of £210m were agreed. Neil Marten also agreed that we could express our willingness to see used aid of up to £30m towards local costs out of the existing bilateral programme, if the Indians agreed.

Following Kenneth Baker's visit to Delhi last month, it emerged that there are good prospects of the UK securing a negotiated contract for this major project, which is our current key commercial target in this important market. The industrial importance of the project rests not only on the acknowledged acute capacity pressures facing the power plant industry, but also on the fact



From the Secretary of State

that this is the first project in which we have managed to persuade the three major companies in the industry - NEI, GEC and Babcocks - to work together. 40,000 man-years of work could result for our companies.

The outstanding issues are financial. These essentially arise from a substantial increase in potential UK content resulting from the Government of India's need, given their acute domestic resource constraints, to obtain 100% offshore financing for the project at reasonably attractive overall interest rates. In consequence, the Indian Government have requested proposals entailing maximum UK content for the totality of resources required. The maximum UK content of the 2 x 500MW power station and coal mine have risen to £338m, and in addition a new project - the associated transmission line - with maximum UK content of £106m has been added. This brings the total potential UK content of £444m, compared with £210m last year. However, unless the Indians obtain proposals which involve suitable financing, the project will not go ahead. I consider that this would require us at least:-

- (a) to maintain our earlier aid and export credit offer for the power station and coal mine in respect of their increased UK content;
- (b) to offer the same relative level of export credit cover (but no ATP) for the transmission line.

Overall, these proposals would involve ATP support increasing to £51m, export credit cover increasing to £440m, and the 7 $\frac{3}{4}$ % export credit rate for the combined power station and coal mine being maintained until the deadline of 16 May. In addition there could be presentational advantage in agreeing to proposals which the Indians may put forward to increase amounts of already committed local costs aid towards the project.



From the Secretary of State

Export Credit Issues

Officials have reached agreement on the increased export credit limits for India, to cater for these projects and other demands (including increased cover for the steel plant to meet the French shortfall). They have concluded that it would be justified to increase the current limit for India (which includes principal and accrued interest) of £1.3 billion to £1.8 billion. This new limit entails a reservation of £900m for the steel plant, £650m for the power station projects (which implies a firm reservation for £390m UK content), and enables the balance of requests for cover currently on hand to be handled on a "first come first served" basis. If either of the steel plant or power station projects do not come to fruition, export credit cover available for other projects would not be increased automatically, and a further review of the market would then take place.

This would enable us to offer the Indians financing proposals for the power station projects for the maximum UK content of £444m, whilst the firm export credit reservation would be for the likely UK content of £390m. The interest rate for the power station, would be maintained at 7 $\frac{3}{4}$ % until the export credit consensus deadline of 16 May; (the coal mine would be eligible for this interest rate on the explicit basis that it formed part of the power station contract and contractual commitments would be entered into by 16 May).

ATP Aspects

The proposed increase in ATP (from the £40m previously agreed) to £51m is necessary solely in order to maintain the earlier ATP offer of 15% of the UK content, in line with increased maximum UK content of the power station and coal mine. The subsidy element for all the projects taken together is 41%; excluding the transmission line, the subsidy element is 48% - within the limits for such ATP supported projects. This is on the basis that the



From the Secretary of State

interest rates over the next 15 years would be 15%. This aid would be spread over a 5 year period. I am glad that Neil Marten has agreed in principle (subject to developmental appraisal) to increasing the aid in line with the UK content. I should be glad to have your early confirmation as well.

Other Support

It appears that the Government of India would also be interested in seeing an increased amount of already agreed local costs element from the normal bilateral programme used on these projects. Given the difficulties the Indians have had in spending the requisite amounts of such aid on projects involving UK exports, there would be a presentational advantage in demonstrating our willingness to do so. We have proposed a total of £55m, (apportioned £35m, £10m and £10m on the power station, coal mine and transmission projects respectively). I understand that Neil Marten has also agreed this in principle.

I believe your officials have requested subsidy calculations including this local costs support. Such calculations are of course of questionable value, since the absence of competing projects means that there is a zero opportunity cost; in consequence it would be very difficult to refuse an Indian request to see local costs support used on such projects. However, the arithmetical calculations give a figure of 55% for the projects taken together (61% for the power station, 63% for the coal mine, and 31% for the transmission line).

On the purely commercial side, the Banks have indicated their ability to provide the balance of resources of about £150-£200m though euro currency loans in a mixture of currencies with a 10 year duration.

Phasing of Aid Payments

In view of the Indian preoccupation with achieving a low average



From the Secretary of State

interest rate over the 15 year construction-repayment period, my officials have proposed that the same volume of aid in real terms be spread over 15 years, in line with the payment of interest on the loans, rather than over the 5 year construction period as is normally the case. This would also have the cash flow advantage from our point of view in reducing the incidence of aid over the next two years, and spreading it over a longer period.

I understand that officials are considering the implications of these suggestions but that resolution of this will take time. However, if the Indians confirm their desire to see aid so phased, we will need to come to an early decision on this issue in relation to this project.

Conclusions

My officials will need to present revised financing proposals to the Indians within the next day or two. I should therefore be grateful if you could indicate as soon as possible your agreement to the increases in aid being proposed in respect of these projects.

Copies of this letter go to John Coles (No 10) - in view of Mrs Gandhi's impending visit, and the Private Secretaries of FCO, ODA, and Industry

Yours
John Biffen

JOHN BIFFEN

16 FEB 1982

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India

AJC

From the Secretary of State

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London, SW1E 6RB

15 February 1982

Dear Patrick,

INDIA: "THE GREAT GAME"

I was interested to read Kenneth Baker's note to you of 29 January about his trip to India last month.

I agree with much of what Kenneth says, such as on the Indians' economic capabilities and on the link, as they see it, between their export performance and ability to import capital goods from countries like ourselves. We all wish to encourage British companies to look at the Indian market: with sound economic management on India's part and the cushion provided by the IMF loan, prospects there should remain good.

As for the means, such as Kenneth suggests in his reference to joint consultative groups, we should in my view look first to the fuller utilisation of existing machinery, notably the Indo-British Economic Committee (IBEC) and its sub-committees. The Indian Commerce Minister and myself jointly chair IBEC: its next meeting will be in London this Summer, probably June. It would also be helpful to make sure that officials from my Overseas Trade Division 4 and



From the Secretary of State

PEP are fully involved in any contacts which the Department of Industry may have with specific industrial sectors on the Indian market to follow up Kenneth's visit.

I am copying this to Peter Carrington and to the Prime Minister.

Yours

John Biffen

JOHN BIFFEN



15 FEB 1982



SECRETARY OF STATE

INDIA - "THE GREAT GAME"

Throughout the 19th Century, several European countries vied and struggled with each other to control the trade with India. We won, and even towards the end of the century, as readers of Kim will remember, the British and Russian empires almost came to blows over the control of the North West Frontier passes. A trade war is again raging over the sub-Continent, but this time, apart from the European nations, there are the Japanese and more crucially a rapidly developing Indian owned and managed industrial base.

India has developed to the stage where she is self sufficient in food and although there are enormous inequalities and geographical imbalances and the ever present threat of natural disaster, there is a rapid growth in her own industrial capability. For some time however, this will not be able to meet the burgeoning demands in engineering, in power generation, electronics and consumer goods. These will only be met through partnership investments in which the western countries provide the know-how and technology and transfer them to Indian companies. There is a large under employed skilled, and in many cases, very well educated workforce. Basic engineering skills are well established and the Indians are rightly proud of their export achievements in such projects as building a cement works in Indonesia and reorganising and re-equipping the Nigerian railways.

India is running a very substantial trade deficit and can only continue to do so through the large IMF loan which has been recently negotiated. However, we must recognise that she can only follow the current policies if her own industries can develop exports and one of the prime objects of any joint ventures between British and Indian firms should be to achieve this. Some of our joint ventures are already doing this. Systime, a British software company has a subsidiary in Bombay using Indian software engineers to export packages overseas. Several companies are establishing subsidiaries in India to export into Russia, particularly those able to tap the technologies freely available in South East Asia.

M26/M26ABY



Britain's trade with India has expanded rapidly. In 1980 we exported £529m worth of goods and have a favourable trade balance of £213m. This year we could well sell more to India than we do to Japan and within a few years, could be selling more than we do to Australia or Canada.

We won the steelworks contract and are now chasing a power station and mine development project worth over £240m. Leyland is well established in partnership with Ashoka for trucks and we are offering them the complete production line of the ITAL and now discussing the manufacture of the METRO as the basic people's car of below 1000 cc. Several British companies are well established in joint ventures such as GEC who employ about 20,000 Indians. When I was there Pye TV of Cambridge won against Japanese competition, the order for the first four outside broadcast vans for colour TV transmission for the Asean Games this September. British technology will therefore bring colour TV to India.

We are well placed because of our long association and such bitterness as there was over independence has evaporated. Our High Commission has a special place in the labyrinth of Delhi politics. We provide the largest amount of aid; the commercial team in the Commission is very professional and has been strongly supported by our own PEP Division under Chris Benjamin. English is the unofficial 'basic' language - entrants to the Indian Civil Service are allowed to take the exam in any of the sixteen Indian languages and 96% of them take it in English and 4% in Hindi.

These are strengths which we should be prepared to use more vigorously. The competition is fierce and the Japanese, hitherto not very interested, as the market for consumer goods is limited, are beginning to show some interest. They are certainly bidding to dominate the market for telecommunications equipment and we must fight them hard over this. Over the next few months I intend to encourage British companies to look seriously at the Indian market and set up some joint consultative groups similar to the one that is working well in the mining industry.

The British industrial effort has been enormously encouraged by the visit of the Prime Minister and John Biffen. I think that it is important to keep up the ministerial presence and I suggest that you should consider visiting India within the next 12 months.

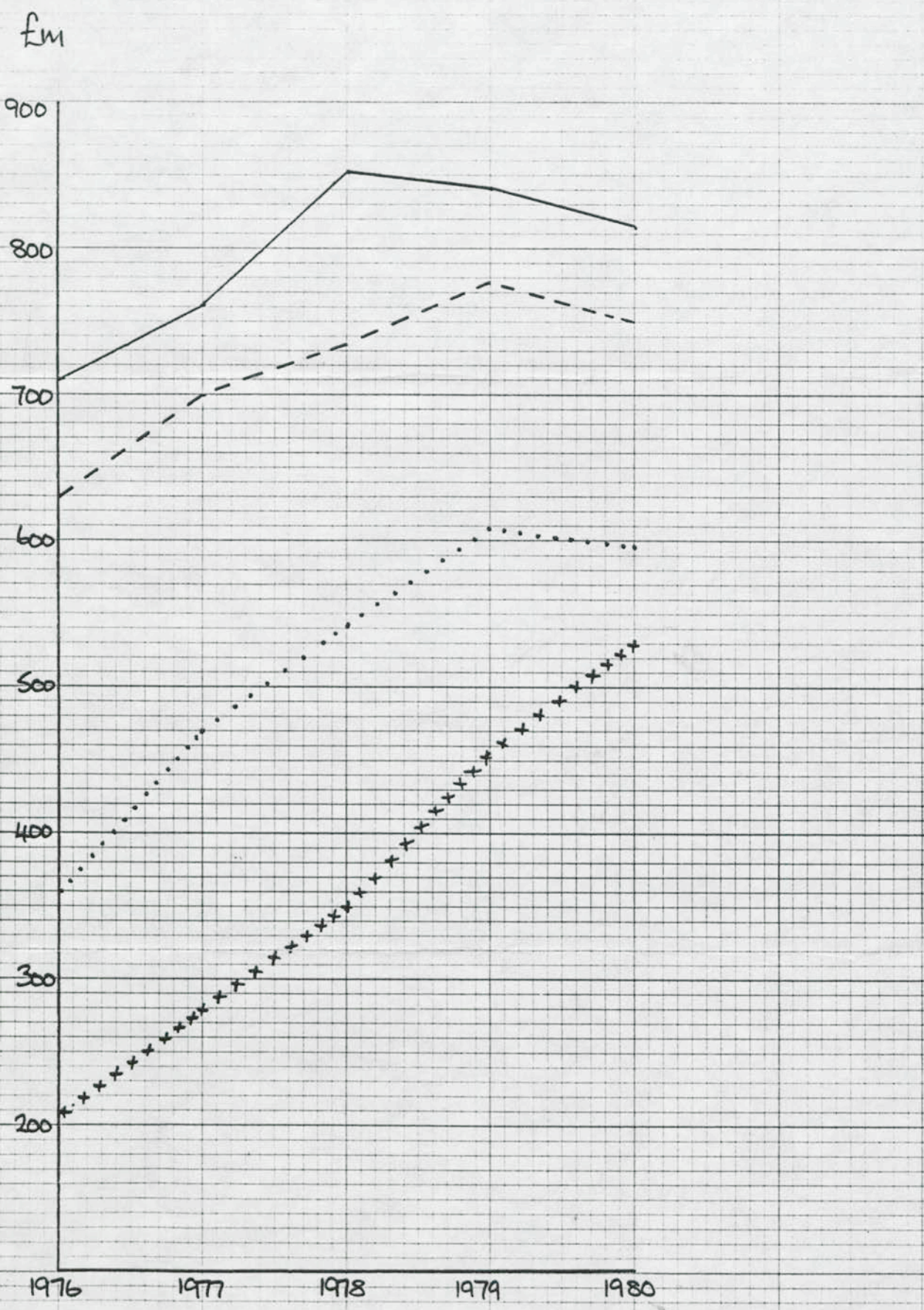
I am copying this to Peter Carrington, John Biffen and in view of Mrs Gandhi's impending visit to the UK for the Festival of India to the Prime Minister.

KB

KENNETH BAKER
29 January 1982

M26 M26ABY

UNITED KINGDOM EXPORTS.



KEY AUSTRALIA ———
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INDIA x x x x
JAPAN



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27 January 1982

In his letter of 26 January Roderic Lyne described the efforts made by the Foreign and Commonwealth Office, the High Commission in Delhi and the Deputy High Commission in Bombay to give Mr. John Peyton MP and Mrs. Peyton a full and rewarding programme in India. This is just to say that we are most grateful for the arrangements that were made.

A. J. COLES

Francis Richards, Esq.,
Foreign and Commonwealth Office.

File



10 DOWNING STREET

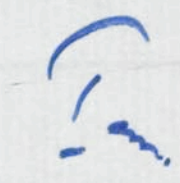
A. COLES

THANK

YOU

VERY

MUCH.


27/1/1952.



Foreign and Commonwealth Office

London SW1A 2AH

26 January 1982

Dear John,

*1) Mr. Gow to see
They did him proud.
2) back to me pl.*

A-S-C.

Thank you for your letter of 5 January about the forthcoming visit of Mr John Peyton MP and Mrs Peyton to India. I attach a copy of the programme arranged by the High Commission in Delhi and the Deputy High Commission in Bombay to supplement the private arrangements Mr Peyton has already made.

During his own visit to Delhi, Mr Hurd discussed Mr Peyton's plans with Sir John Thomson. Mr Hurd then briefed Mr Peyton on 21 January on the programme and on the present situation in India.

We arranged for the Indian High Commissioner, Dr Seyid Muhammed, to meet Mr Peyton before his departure and for the Department of Trade to brief him on commercial matters. I understand that Mr Nott had already arranged for briefs to be prepared on defence sales matters.

I am sending copies of this letter to the Private Secretary to the Chancellor of the Exchequer and to the Secretary of State for Defence, who also asked that Mr Peyton should receive appropriate briefing and assistance.

*yours ever
Roderic Lyne*

(R M J Lyne)
Private Secretary

A J Coles Esq
10 Downing Street

MR JOHN PEYTON MP AND MRS PEYTON'S VISIT TO INDIA, 24 JANUARY-
12 FEBRUARY 1982

PROGRAMME

- 24 January: Delhi Arrival. Mr and Mrs Peyton will be met at Palam Airport by a member of the High Commission staff and official transport. Note: Lord and Lady Brabourne, Mr James Blythe, Head of Defence Sales and Mr Richard Vernall, Defence Sales, Ministry of Defence, will also be travelling on Mr Peyton's flight.
- 26 January: Delhi Dinner (informal) Sir John and Lady Thomson.
Lord and Lady Brabourne and the Rt Hon James Callaghan and Mrs Callaghan will also attend.
- 27 January: Delhi Lunch, British Deputy High Commissioner and Mrs M K Ewans.
Industrialists will be present.
- 28 January: Delhi Call on Sri K P Singh Deo, Deputy
PM Minister for Defence (new appointment).
A member of the High Commission will accompany Mr Peyton.
- 29 January: Delhi Dinner. Sir John and Lady Thomson.
Fellow guests will be drawn from the Defence field.

/9 February:

9 February: Bombay

Dinner. British Deputy High Commissioner in Bombay and Mrs Colin Imray.

Guests: Chief Executive: Mercantile Bank.

Head: Chartered Bank.

President (designate): Bombay Chamber of Commerce.

President: UK Citizens Association.

Managing Director: Cadbury's Chocolate (India).

Managing Director: Glaxo (India).

Chairman: State Bank of India.

1. DC
2. CF to pa

SUBJECT.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 13A/82

UNCLASSIFIED

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GRS 110
UNCLASSIFIED

Lee. Market net
ps

DESKBY 250600Z
FM FCO 221200Z JANUARY 82
TO IMMEDIATE NEW DELHI
TELEGRAM NUMBER 77 OF 23 JANUARY
REPUBLIC DAY

1. PLEASE CONVEY THE FOLLOWING MESSAGE FROM THE PRIME
MINISTER TO MRS GANDHI:

'IT GIVES ME GREAT PLEASURE TO SEND TO YOU AND TO THE
GOVERNMENT AND PEOPLE OF INDIA MY WARMEST CONGRATULATIONS ON
THE OCCASION OF REPUBLIC DAY AND MY BEST WISHES FOR A HAPPY
AND PROSPEROUS FUTURE.

I RECALL WITH PLEASURE MY VISIT TO INDIA LAST APRIL AND
LOOK FORWARD TO RECEIVING YOU IN BRITAIN IN MARCH. THESE VISITS
STRENGTHEN OUR EXISTING CLOSE RELATIONS AND SYMBOLISE THE
WARM AND AFFECTIONATE FEELING BETWEEN OUR TWO COUNTRIES.'

CARRINGTON
LIMITED
SAD
PCD
PS
PS/MRHURD
MR DONALD

COPIES SENT TO
No. 10 DOWNING STREET

India ①

PRIME MINISTER

cc: Duty Clerk

INDIA: REPUBLIC DAY MESSAGE

You usually send a message to Mrs. Gandhi on Republic Day (26 January).

If we are to get fully publicity value from the message it needs to be telegraphed to Delhi before Monday. The Duty Clerk has a copy of the attached draft.

Agree that the Duty Clerk should despatch this on Sunday?

A. J. C.

[Handwritten signature]

22 January 1982

Resident Clerk
told on 23.1.82
- see attached note

h-a.
[Handwritten initials] 24.
1

DRAFT MESSAGE TO MRS. GANDHI ON REPUBLIC DAY

On the occasion of Republic Day I send to you and to the Government of India my warmest congratulations and my best wishes for a happy and prosperous future.

I recall with great pleasure my visit to India last April and look forward to receiving you in Britain in March.

Atwood
ms



Foreign and Commonwealth Office

London SW1A 2AH

22 January 1982

Dear John,

India: Republic Day Message from the Prime Minister

It is customary for the Prime Minister to send a message to the Indian Prime Minister on Republic Day, 26 January.

/ I attach a draft message from the Prime Minister to
Mrs Gandhi in the form of a telegram to New Delhi. A copy
/ of last year's message is also enclosed for reference.

If we are to gain full publicity value from the message it is necessary for it to be delivered on 25 January. I should be grateful for your approval in time for me or the Resident Clerk to send the telegram to Delhi before Monday.

yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

A J Coles Esq
10 Downing Street

OUT TELEGRAM

Classification and Caveats

UNCLASSIFIED

Precedence/Deskby

IMMEDIATE

ZCZC 1 ZCZC
 GRS 2 GRS
 CLASS 3 UNCLASSIFIED
 CAVEATS 4
 DESKBY 5 DESKBY 250600Z
 FM FCO 6 FM FCO 221200Z JANUARY 82
 PRE/ADD 7 TO IMMEDIATE NEW DELHI
 TEL NO 8 TELEGRAM NUMBER

9 REPUBLIC DAY
 10 1. Please convey the following message from the Prime
 11 Minister to Mrs Gandhi:

12 *On the occasion of Republic Day*
 "It gives me great pleasure to send to you and to the
 13 Government and People of India my warmest congratulations ~~on~~
 14 ~~the occasion of Republic Day~~ and my best wishes for a happy
 15 and prosperous future.

16 I recall with ^{great} pleasure my visit to India last April and
 17 look forward to receiving you in Britain in March. These visits
 18 ~~strengthen our existing cordial relations and symbolise the~~
 19 ~~warm and affectionate feeling between our two countries."~~

20 *Your visit will provide a further opportunity to develop understanding relations*
 21 *our two countries and to emphasise the*
 CARRINGTON

22 NNNN

///

//

24

25

NNNN ends telegram	BLANK	Catchword
File number	Dept SAD	Distribution Limited
Drafted by (Block capitals) R N DALES		SAD PCD
Telephone number 233 5993		Mr Donald PS/Mr Hurd
Authorised for despatch		PS cc: No 10
Comcen reference	Time of despatch	

29 JAN 1981

TOP COPY

DESK OFFICER		REGISTRY
INDEX	PA	Action Taken

RESTRICTED

2611 - 1

RR NEW DELHI

GRS 115

RESTRICTED

FM FCO 161300Z JAN 81

ROUTINE NEW DELHI

TELEGRAM NUMBER 25 OF 16 JANUARY

INDIA REPUBLIC DAY

1. PLEASE CONVEY THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO MRS GANDHI ON OR JUST BEFORE 26 JANUARY.

'I AM DELIGHTED, ON THE OCCASION OF REPUBLIC DAY, TO SEND TO YOU AND TO THE GOVERNMENT AND PEOPLE OF INDIA MY WARMEST CONGRATULATIONS AND MY BEST WISHES FOR A HAPPY AND PROSPEROUS FUTURE.

I VERY MUCH LOOK FORWARD TO SEEING YOU AGAIN IN APRIL AND TO RENEWING AND EXTENDING MY ACQUAINTANCE WITH INDIA. I HOLD MANY HAPPY MEMORIES FROM MY PREVIOUS VISITS. IT IS MY SINCERE HOPE THAT OUR FORTHCOMING MEETING WILL STRENGTHEN FURTHER THE BONDS BETWEEN OUR TWO COUNTRIES
WARM REGARDS. MARGARET THATCHER'

CARRINGTON

NNNN

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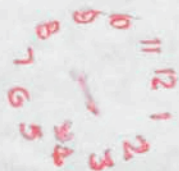
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PS/MR BLAKER

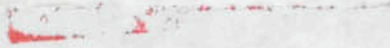
PS/PUS

SIR J GRAHAM

MR DONALD



22 JAN 1982





Just
bc lau Gou

10 DOWNING STREET

From the Private Secretary

5 January 1982

INDIA: VISIT OF THE RT. HON. JOHN PEYTON, M.P.

The above wrote just before Christmas to say that he is planning to visit India, together with his wife, for three weeks from 24 January. The visit begins with six days in Delhi. Mr. Peyton says that arrangements have been made for him to attend the Republic Day celebrations and to meet Mrs. Gandhi.

As you will recall, Mr. Peyton was a Member of the Shadow Cabinet until 3 May, 1979 and is now one of the most senior backbenchers in the Conservative Party. The Prime Minister would be grateful if everything possible could be done to facilitate his visit to India. In particular, you may think it would be helpful for Sir John Thomson to discuss the visit with Mrs. Gandhi's staff and let them know of the Prime Minister's interest. I think it would also be most helpful if Sir John Thomson could offer a meal, perhaps dinner, for the Peytons. I understand that they would be interested in meeting figures from Indian industry. Peyton is interested in high technology and is currently, I understand, a Director of Texas Instruments.

A. J. COLES

R.M.J. Lyne, Esq.,
Foreign and Commonwealth Office.



10 DOWNING STREET

Prime Minister

John Peyton and his wife are
visiting India for 3 weeks from 24
January. A meeting with Mr. Gandhi
 has been arranged.

2. He has asked Sam Jones whether
 you could "support" his visit.

3. I propose to ask Sir John
 Thomson to alert Mr. Gandhi's office
 to the visit and to John Peyton's
 status in the Conservative Party. I think
 they will then make a fuss of him.

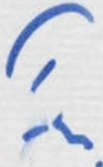
4. I will also ask our people to buy
on some entertainment for him to meet
interesting Indians

5. Agree? We must do
 everything possible
 for him. not

John Coles

1. Herewith letter dated 22nd December from John Peyton, together with a copy of my reply.
2. As you know, John Peyton was a member of the Shadow Cabinet until 3rd May 1979 and is one of our most senior backbenchers.
3. He is also a very staunch supporter of the Prime Minister's.
4. Is it possible, please, to do all that we can to "facilitate" the best possible treatment for John Peyton in India?

23.12.81



IAN GOW

23rd December 1981

Many thanks for your letter of 22nd December about which we had a word on the telephone yesterday.

We will, of course, do the necessary.

Next month's trip sounds fascinating and I look forward to hearing all about it when you get back.

IAN GOW

The Rt Hon John Peyton MP

The Rt. Hon. John Peyton, M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

Dec 22

Dear Ian

I am going to India (with Ann)

on 26 Jan for three weeks - starting

off with six days in Delhi. Arrangements

have been made for me to attend

Republic Day celebrations & to meet

Mrs Gandhi

I don't know if there is anything

which the Prime Minister feels she could

proprietor do to help. I need hardly say

that her support would make all the

difference

Thank her

Yours

I have not been there since 46/47

when I used to carry Walter Touchton's clubs.

CONFIDENTIAL

GRS 47φ

CONFIDENTIAL

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.

CONFIDENTIAL

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

LIMITED
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TRED
MR GOODISON
MREVANS

ADDITIONAL DISTN
INDIA ECONOMIC

India
Relations

India

CONFIDENTIAL PS TO PM NO 10 DOWNING STREET

GRS 76φ
CONFIDENTIAL
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.

CONFIDENTIAL

/ 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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WED

[ADVANCED AS REQUESTED]

ADDITIONAL DISTN.
INDIA ECONOMIC

2
CONFIDENTIAL



India
Foreign and Commonwealth Office

London SW1A 2AH

Type for PM's signature

27 October 1981

RML

Dear Michael,

MCC Tour of India

Under cover of your letter of 19 October you sent me a copy of the letter which Mr John Carlisle MP had sent to the Prime Minister about the Indian Cricket Tour. I enclose a draft reply.

The reference to the "England Government" in the second paragraph is presumably a slip and should have read "Indian Government". The reply will of course need to be changed if there is some new development, such as the cancellation of the tour (we have heard that a decision is likely in the very near future).

yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON SW 1

DS Form 1 (Revised)

DRAFT: ~~memo~~/letter/teletype/despatch/note

TYPE: Draft/Final 1+

FROM:
Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret
Secret
Confidential
Restricted
Unclassified

John Carlisle Esq MP
House of Commons

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

Thank you for your letter of 19 October. I too share your concern about the cricket tour. For the time being I gather that the two cricket boards are still talking to each other and while this is so there must remain some hope.

I have thought carefully about your suggestion of making representations to Mrs Gandhi, but I have concluded that this would not advance matters. We have made clear that we stand by our obligations under the Gleneagles agreement, which was reaffirmed at the Commonwealth Meeting at Melbourne. Much the best course would be for the cricketing authorities to resolve the matter among themselves.

Enclosures—flag(s).....



28 OCT 1981

GRS 450

CONFIDENTIAL

See

CONFIDENTIAL

DESKBY 240900Z

FM DELHI 240727Z OCT 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 794 OF 24 OCTOBER

FOR RESIDENT CLERK.

YOUR TEL NO 705: MCC TOUR OF INDIA.

1. I WAS ABLE THIS MORNING TO HAVE A TALK WITH MANGALMURTI, AN OFFICIAL NEWLY APPOINTED IN THE MEA TO ADVISE ON INTERNATIONAL SPORTING AFFAIRS. I EMPHASISED THAT I HAD NO FRESH INSTRUCTIONS BUT WOULD BE GRATEFUL IF, ON AN INFORMAL BASIS, WE COULD TALK OVER THE PRESENT SITUATION.

2. MANGALMURTI EMPHASISED THAT ALTHOUGH THE GOI HAD RECENTLY RECONSIDERED THEIR ATTITUDE TOWARDS THE TOUR, THEY HAD DELIBERATELY REFRAINED FROM COMMITTING THEMSELVES PUBLICLY AND WERE STILL HOPING THAT SOMETHING WOULD TURN UP WHICH WOULD ENABLE IT TO GO AHEAD. HE DID NOT KNOW PRECISELY WHAT WAS IN MRS GANDHI'S MIND, BUT HE THOUGHT THAT SHE MIGHT HAVE BEEN INTENDING TO RAISE THE SUBJECT WITH THE PRIME MINISTER AT CANCUN. ALTERNATIVELY, SHE MIGHT BE INTENDING TO REVIEW IT DURING HER STAY IN LONDON OVER THE WEEKEND. THIS MIGHT MEAN MERELY TAKING THE ADVICE OF THE INDIAN HIGH COMMISSION, BUT IT WAS POSSIBLE THAT ONE OF HER PARTY MIGHT TRY TO SPEAK TO SOMEONE IN THE BRITISH GOVERNMENT.

3. I ASKED WHETHER, GIVEN THE CLEAR ATTITUDE OF THE TCCB, THERE WAS ANY CONCEIVABLE WAY OF GETTING ROUND THE PROBLEM. EMPHASISING THAT HE WAS SPEAKING PERSONALLY, MANGALMURTI SAID THAT, FIRST OF ALL, THE PROBLEM COULD PERHAPS BE SOLVED IF THE TWO PLAYERS WERE TO MAKE SOME STATEMENT MAKING IT CLEAR THAT THEY WOULD NOT AGAIN PLAY CRICKET IN SOUTH AFRICA, (ALTHOUGH HE BELIEVED THAT COOK AT LEAST HAD MADE A STATEMENT INDICATING THAT HE WOULD DO NO SUCH THING). SECOND, HE THOUGHT THAT THE REAL PROBLEM MIGHT BE OVER COOK AND NOT BOYCOTT, IN THAT, AS HE UNDERSTOOD IT, WHEREAS THE FORMER HAD PLAYED IN COUNTY GAMES IN SOUTH AFRICA AND HAD THEREFORE ACTIVELY PARTICIPATED IN APARTHEID SPORT, THE LATTER HAD ONLY ENGAGED IN COACHING. BOYCOTT ALONE MIGHT THEREFORE IN THE LAST RESORT BE ACCEPTABLE.

4. MANGALMURTI EMPHASISED SEVERAL TIMES THAT THE LAST THING THE GOI WANTED WAS CONFRONTATION. HE WAS RATHER AFRAID THAT NEITHER OF HIS SUGGESTIONS WERE RUNNERS, BUT HE HOPED THAT I WOULD REPORT THEM, JUST IN CASE THEY DID PROVIDE SOME SORT OF WAY OUT.

CONFIDENTIAL

15. INCIDENTALLY

CONFIDENTIAL

5. INCIDENTALLY, MANGALMURTI RATHER INDISCREETLY REVEALED THAT THE GOI HAD NO REAL EVIDENCE THAT THERE WOULD BE DEMONSTRATIONS DURING THE MCC TOUR WHICH MIGHT SERIOUSLY DISRUPT IT. THEIR PROBLEM LAY RATHER WITH THE OPPOSITION WHICH WOULD UNDOUBTEDLY BE VOICED IN THE INDIAN PARLIAMENT (SEE OUR TELNO 726).

6. I SHOULD BE GRATEFUL IF YOU WOULD ENSURE THAT THOSE CONCERNED ARE MADE AWARE OF THE POSSIBILITY THAT THERE MAY BE SOME APPROACH FROM MRS GANDHI'S PARTY DURING THEIR IMPENDING TRANSIT OF LONDON.

EWANS

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PS/LPS
PS/MR HURD
PS/MR LUCE
PS/PUS
SIR A ACLAND
SIR J GRAHAM
LORD NG LENNOX
MR GOODISON

COPIES TO
PS/NO 10 DOWNING ST

PRIME MINISTER

Mrs. Gandhi: Anglo-Indian Trade

Two points to mention to Mrs. Gandhi if a suitable opportunity presents itself:-

- a) Our success in winning the Sicartsa II contract underlines Davy's quality.
- b) The Indian Government is approaching the point of decision on a new thousand mw coal fired powered generator project, probably to be located in Uttar Pradesh. This would be a negotiated contract. A British consortium (involving the CEGB, GEC and Babcock) are well placed. The competitors are FRG, France and Romania. Britain's industry at present disposes of a higher degree of expertise in this field than that of anyone else. Our successes in Hong Kong and Canada are evidence.

Phinds
-

22 October 1981

I am sure that you will in any case have mentioned to Mrs G, that you are looking forward to seeing her in London in March. You might add the point that we badly need to pin down the dates: you will recall the rather compromising reply that we had to send to Mr Paul about his dinner.

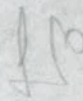
20 October 1981

I enclose a copy of a letter the Prime Minister has received from John Carlisle, M.P. about the forthcoming India v England cricket series. I should be grateful if you could let me have a draft reply for the Prime Minister's signature by Friday 23 October, if possible.

I am sending a copy of this letter and enclosure to Warwick Smith (Department of the Environment).

MICHAEL PATTISON

R.M.J. Lyne, Esq.,
Foreign and Commonwealth Office.



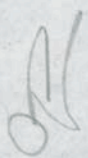
HL

20 October 1981

I am writing on behalf of the Prime Minister to acknowledge your letter of 19 October. This is receiving attention and a reply will be sent to you as soon as possible.

MA PATTISON

John Carlisle, Esq., M.P.





file

ER

27/10

10 DOWNING STREET

From the Private Secretary

20 October 1981

John CARLISLE

I enclose a copy of a letter which the Prime Minister has received from Mr. John Carlisle about the MCC tour.

I should be grateful if you could let me have a draft reply which the Prime Minister might send to Mr. Carlisle. It would be helpful if your draft could reach me by Tuesday 27 October.

I am sending a copy of this letter and its enclosure to Warwick Smith (Department of the Environment).

M. O'D. B. ALEXANDER

Roderic Lyne, Esq.,
Foreign and Commonwealth Office

LB



file

SK

10 DOWNING STREET

From the Private Secretary

20 October 1981

I am replying on the Prime Minister's behalf to your letter of 19 October about the MCC tour.

Your letter has been drawn to the Prime Minister's attention and you will be receiving a substantive reply as soon as possible.

M. O'D. B. ALEXANDER

John Carlisle, Esq., M.P.

SUBJECT

M.

India

(2)

Prime Minister

T147/81

Am

MESSAGE TO THE PRIME MINISTER AND PEOPLE OF THE
UNITED KINGDOM FROM AIR INDIA 143

Whilst overflying the United Kingdom
please convey to Mrs. Thatcher and people of
the United Kingdom warmest greetings and
best wishes for continued success and health.

From Mrs. Indira Gandhi.

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T147/81

mt

20 October 1981

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20 OCT 1981

C O N F I D E N T I A L



DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Michael Alexander Esq
Private Secretary
10 Downing Street
Whitehall
LONDON SW1

20 October 1981

✓ MAR.

Dear Michael

INDIA CRICKET TOUR

Following our chat on the phone this morning I enclose an approximate text of a telegram from the Test and County Cricket Board to the Indian Cricket Board. This is in response to the Indian Board's notification that Boycott and Cook would not be welcome to the Indian Government.

If the TCCB, who are trying to talk to the Indian Board by telephone, let us have any more before Question Time we will of course pass it on immediately.

I am copying this to Roderic Lyne at the FCO.

Yours ever
W L Smith

W L SMITH
Private Secretary

9

APPROXIMATE TEXT OF TELEX FROM TCCB TO INDIAN BOARD

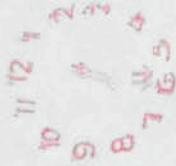
Surprised at requests to drop two players. This is directly contrary to unanimous ICC resolution and contrary to TCCB's firm principles. We cannot therefore agree to exclusion of any members of the team. We very much hope that Government of India will reconsider their decision so that tour can proceed.

Request they be made aware of these relevant points:-

1. Boycott went to South Africa last winter on holiday where he also coached;
2. Cook went on a winter coaching holiday where he coached youngsters of all races and played in local teams;
3. TCCb not object to and unable to prevent individuals from making arrangements to visit South Africa;
4. The Board is opposed to any international representative matches against teams from South Africa and players are warned accordingly;
5. Two privately arranged such tours recently cancelled as a result of Board's efforts. One County received invitation to tour South Africa and has declined on the Board's instruction.

No truth whatsoever in rumour that 6 English players in South Africa for double wicket competition were sent by the Board. They went without the approval of the Board or their Counties. Very concerned at possible disastrous consequences for cricket if tour is cancelled owing to unacceptability of selected team.

20 OCT 1941





HOUSE OF COMMONS
LONDON SW1A 0AA

19 October 1981

(Handwritten initials)

Dear Prime Minister;

I write to you as one very concerned that the threatened action by Mrs Gandhi in banning the forthcoming India v England cricket series will have serious repercussions throughout the sporting world.

It is particularly sad that after your own efforts to keep the Gleneagles Agreement in tact at the Melbourne Conference, and for this most sportsmen are grateful, that within such a short time the England Government should rescind any intention of abiding by its principles. You will know my own feelings in this matter and my anxiety to admit South Africa into the international arena. I am, however, concerned that the Gleneagles Agreement is now being used as an easy cover for political blackmail and double standards. You, yourself, have condemned the provision of the United Nations blacklist and I hope you will find early opportunity to renew this statement.

May I, therefore, ask you to make urgent representation to the Indian Prime Minister to ask to allow the tour to go ahead. Abandonment of the series will hasten the process of polarisation between black and white countries and this must be to the detriment of all sport loving nations.

Yours sincerely,

(Handwritten signature)
John Carlisle

The Rt Hon. Mrs Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
S.W.1.



10 DOWNING STREET

From the Private Secretary

19 October 1981

Dear Rodric,

Cricket

The Indian Deputy High Commissioner, Dr. I.P. Singh, called on me this afternoon to discuss the MCC tour of India. He said that his visit was the result of a telephone call from his Foreign Minister. Mr. Rao had asked him to convey his, and Mrs. Gandhi's, concern about the present situation.

Dr. Singh, who made no attempt to play down the volte face in his Government's position towards the tour, said that Mrs. Gandhi and Mr. Rao had come under intense pressure in recent days to ensure that the tour did not take place. There had been representations from a number of foreign governments. Indian opposition parties, no doubt stimulated by the events surrounding the Springboks tour of New Zealand, were determined to exploit the opportunities offered by the visit of an MCC team including Messrs. Boycott and Cook. The Indian Government, like the British Government, did not consider that the participation of Messrs. Boycott and Cook was a breach of the Gleneagles Agreement. Nonetheless they had to recognise the political forces in India. It seemed clear that if the tour took place, the damage to cricket and to Anglo/Indian relations would be considerable. The activities of the hostile minority would have far more impact than those of the silent majority who might support the tour.

At the same time the Indian Government were concerned about the consequences of cancelling or postponing the tour. There were many important figures in India who wished to see the tour take place. Moreover the polarisation in the cricket world which might follow the calling off of the tour was most unwelcome. Clearly the forthcoming Indian tour to this country would, for instance, be in jeopardy.

In this situation, Dr. Singh said that his Government still hoped that the British Government might find some way to obviate the unpalatable choice facing the Indian Government. They had no specific proposal to put forward. However Dr. Singh said that he himself had floated in a recent interview with ITN the suggestion that perhaps Messrs. Boycott and Cook would themselves see the virtue of deciding to withdraw from the tour. Although he was not

/ making

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So

making a proposal to this effect, perhaps this was an idea which could be followed up.

I told Dr. Singh that I was sure the Prime Minister was already well aware of and sympathetic to the dilemma facing Mrs. Gandhi. However I thought it most unlikely that there was anything further that the British Government could do. I recalled the Foreign and Commonwealth Secretary's conversation with Mr. Rao in Melbourne. As regards the suggestion that Messrs. Boycott and Cook might withdraw from the tour, this was no doubt a possibility which had occurred to the cricketing fraternity. However it was not a suggestion which HMG could possibly endorse or advance. Any hint of this would undoubtedly be interpreted by the press and by sportsmen generally as the exercise of pressure of a highly unacceptable kind. Dr. Singh indicated that he took the point. Having made these points, I of course assured Dr. Singh that I would draw his remarks to the Prime Minister's attention. I have done so.

I am sending copies of this letter to David Edmonds (Department of the Environment) and Warwick Smith (Mr. Macfarlane's Office).

Yours ever

Michael Alexander

Roderic Lyne, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER

There is much current activity over the planned English cricket tour of India this winter. I attach an FCO report on the present position. Mr. Macfarlane takes a slightly different view of some aspects. I need not trouble you with the details at the moment. But it seems possible that the Indian Government will reach a decision on Sunday, after spending some time trying to persuade the Indian Cricket Board of Control to take a decision on their own initiative.

If India does cancel the tour, I am told that the TCCB are making contingency enquiries about touring New Zealand, who have lost their own tour of the West Indies in retaliation for the South African rugby tour. This looks likely to remain a messy saga.

MD MS

16 October 1981



Foreign and Commonwealth Office

London SW1A 2AH

15 October 1981

Prime Minister

2
Wm
15/10

Dear Mike,

Cricket

The Prime Minister may wish to know that there is an increasing risk that the tour of India by the English Test cricket team may be cancelled, with potentially adverse effects for international sport and Indo/British relations.

The Test and County Cricket Board (TCCB) published in September their list of players to tour India. The list included Boycott and Cook, who are on the UN blacklist because of their sporting links with South Africa. After some initial hesitation the Indian Government announced that it was content to leave matters in the hands of the Indian Cricket authorities (who had made it clear that they did not see the inclusion of Boycott and Cook as a problem). But we have since had private indications from the Indians that they are rethinking their position. They claim to be worried because of the threat of demonstrations that could develop at the matches and because of their position at the United Nations (where they are a member of the Special Committee on Apartheid which endorses the application of the blacklist). They have sought our assistance in solving their problem; but we have made it quite clear that we cannot interfere with, or put pressure on, the TCCB and that even to try to do so would be counter-productive.

The Indian Foreign Minister is due to see Mrs Gandhi about the problem and matters could come to a head soon. A decision by the Indians to call off the tour for reasons relating to keeping law and order would probably be the best solution from our point of view. But they may well balk at this. If they say that Boycott and Cook will not be acceptable in India it seems certain that the TCCB will call off the tour. We should then have to do what we could to

/limit the

M Pattison Esq
10 Downing Street
LONDON SW 1



limit the damage to our relations with India. As you know, Lord Carrington has invited the Indian Foreign Minister to visit Britain in November; and there is the prospect of Mrs Gandhi's visit next March.

I am copying this letter to the Private Secretary to the Secretary of State for the Environment and the Private Secretary to the Minister for Sport.

Yours truly
Roderic Lyne

(R M J Lyne)
Private Secretary

India

PS TO PM NO 10 DOWNING STREET

RESTRICTED

GPS 530
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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.

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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

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ADDITIONAL DISTRIBUTION

INDIA ECONOMIC



Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

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

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 MR GOODISON
Authorised for despatch		
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 LIMITED SAD TRED PS PS/LPS PS/MR HURD PS/PUS SIR J GRAHAM MR GOODISON
Drafted by (Block capitals) F N RICHARDS		
Telephone number 233 4831		
Authorised for despatch		
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 Alstom 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.

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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 CHOGM 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

India

ADVANCE COPY

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.

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ADDITIONAL DISTN:
INDIA ECONOMIC

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CONFIDENTIAL

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

CONFIDENTIAL

/4.

CONFIDENTIAL

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 DAY'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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CONFIDENTIAL

/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
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ADDITIONAL DISTN:
INDIA ECONOMIC

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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

15

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

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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.

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SIR J GRAHAM
MR GOODISON.

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DOT/PEP

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Prime Minister 2

For information

wm
vls

From the Secretary of State

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



THE PATENT OFFICE

18 AUG 1984
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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

CONFIDENTIAL

/AND

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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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



Prime Minister ⁽²⁾

From the Secretary of State

Am

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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SUBJECT



10 DOWNING STREET

From the Private Secretary

28 July 1981

Dear Rodnie,

Call by Rajiv Gandhi

Rajiv Gandhi called on the Prime Minister this morning. He was unaccompanied. Much of the conversation was of a very general kind but one or two points may be worth recording.

In the course of a discussion about the rioting in this country and about similar troubles in India, Rajiv said that in his meetings with members of the Asian community here they had had no complaints to make about the performance of the police in places like Southall. Referring to civil disturbances in India, Rajiv said that they usually occurred in periods of economic recession and in communities where there was a large percentage of small businesses. Businesses of this kind, and of course their employees, were the most vulnerable to the repercussions of economic difficulties.

In response to a question from the Prime Minister, Rajiv described the situation in his constituency and the campaign he had fought there. At no point did he mention that the constituency had previously been held by his brother. A number of his remarks were, at least by implication, critical of his brother's record. He said that on his arrival he had found conditions in the constituency very bad. People claimed that nothing had been done for them for 20 years. They contrasted the situation with that in the neighbouring constituency, which was his mother's. The position in regard to housing and water was very bad. Rajiv said that he was anxious not to shift too much of the responsibility from the shoulders of the individual to the Government but he was making a major effort to improve the water supply. He hoped to have remedied the present situation within a year or so.

Rajiv said that he was determined to ensure that his constituency kept more or less in step with the neighbouring constituencies, richer and poorer, so that there was not too great a contrast between those which were favoured and those which were not. Rajiv explained the success of his electoral campaign by the decision he had taken at an early stage to get rid of a lot of the previous political figures, who had been principally interested in questions of status, and replace them by "workers". By the latter word he meant those who were prepared to work really hard during the campaign: by the end of the campaign he said there were some 40,000 workers active on his behalf.

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/Rajiv

ERC

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Rajiv described the general political position of Congress (I) as good. Opinion had turned in their favour at about the end of last year. This was in part attributable to the fact that they had made a number of sensible appointments. Rajiv said that he himself saw the appointment of good people to key jobs, particularly in the bureaucracy, as a key to the Government's success. It was essential that the bureaucracy was made to attach higher priority to merit and accountability than to long service.

Rajiv excepted from his generally optimistic account the three Communist provinces where, he said, the situation was bad and getting worse. He was less worried by the Communists' propensity to murder political opponents than by the programme of brain-washing and indoctrination which they were conducting in the schools. In a few years time they would have created a situation which would be very difficult to reverse. Unfortunately, Congress (I) had no competent personalities in the provinces in question.

On Anglo-Indian relations, Rajiv said that he had the impression that the financial problems of the Festival of India were on their way to resolution. He was very grateful to the Prime Minister for the interest she had shown. He agreed with the Prime Minister that the Festival promised to be a great success.

In a brief reference to international affairs, Rajiv said that there had been a significant relaxation in India's relations with Pakistan and with China. Recent contacts with Pakistan had indeed been "very friendly". Rajiv commented that given the difficulties in the Middle East it was important to try to improve relations wherever one could. In response to a question from the Prime Minister, Rajiv said that he was confident that his mother would go to the CHGM.

Rajiv's confidence and self-possession throughout the discussion with the Prime Minister was striking. He had, in my view, grown markedly in stature even since April. He readily agreed that his experiences during the by-election had had a significant effect on him.

Yours ever

Richard Alexander

R.M.J. Lyne, Esq.,
Foreign and Commonwealth Office.

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Briefing folder. [Signature]



Foreign and Commonwealth Office

London SW1A 2AH

23 July 1984

Dear Michael,

Rajiv Gandhi - Call on Prime Minister

Mr Rajiv Gandhi is to call on the Prime Minister at 1045 on 28 July. He is representing Mrs Gandhi at the Royal Wedding and is accompanied on his visit to London by his Italian wife, Sonia.

I enclose a brief to which are annexed Rajiv's programme and a personality note. We offered to make arrangements for a fuller programme, including a visit to the BBC and certain British firms, if Rajiv so wished, but he expressed himself content with the more limited programme annexed to the brief.

Yours ever

Roderic Lyne

(R M J Lyne)
Private Secretary

M O D B Alexander Esq
10 Downing Street
LONDON
SW1

SECRET

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223 JUL 1981

CALL BY MR RAJIV GANDHI MP, 1045 AM 28 JULY, 1981

POINTS TO MAKE

Royal Wedding

1. You met Prince of Wales during his visit to India last November.
2. Hope you and your wife enjoy your visit here. (Subject to confirmation: Look forward to seeing you at supper party on 30 July.) Mr Hurd is inviting members of parliament and journalists to meet you at lunch on 30 July. Glad to arrange anything else you want to do.

Mrs Gandhi

3. Give her my warm regards. I attach importance to knowing her thinking. Valuable visit in April.
4. Looking forward to seeing Mrs Gandhi here next March (though believe exact dates have yet to be settled).

Festival of India

5. Joint Patron with Mrs Gandhi. I am taking close personal interest (reception on 17 July).

Indian Affairs

6. Congratulations on your election victory in June. What parliamentary role do you see for yourself? Will you concentrate on any particular issues?
7. What is this year's monsoon like?

UK Affairs

8. Concerned about riots. Racial element small. Visit to Southall.
9. Fully committed to multi-racial society. Asian community valued and welcomed here.

/UK

UK Passport Holders Quota (if raised)

10. Remain committed to special vouchers scheme. Commitment not affected by Nationality Bill.

ESSENTIAL FACTS

1. Rajiv's programme in the UK is at Annex A and a personality note at Annex B. This is his first visit to the UK in any official capacity (he is representing Mrs Gandhi at the Royal Wedding). He is being looked after principally by Mr Swaraj Paul of the Indo-British Association.

Role of Rajiv Gandhi

2. Rajiv has become steadily more involved in Government and Congress (I) business since the death of Sanjay Gandhi in a plane crash on 23 June 1980. Rajiv was elected to the Lok Sabha on 14 June 1981 in a by-election in the Amethi constituency (250m SE of Delhi, in Uttar Pradesh). Amethi was previously held by Sanjay. Rajiv is now officially in public life, but inexperienced and potentially in an exposed position. Mrs Gandhi will face domestic criticism if Rajiv is given authority beyond his official position.

Visit of Mrs Gandhi March, 1982

3. Mrs Gandhi has agreed in principle to the visit. She is provisionally reserving 22 - 24 March, but has yet to agree firmly to these dates.

Festival of India

4. The Prime Ministers are joint patrons of the Festival. The Festival trustees need to raise some £300,000 from private contributions. HMG has already contributed over £1m through the museums and galleries.

/Recent

Recent Riots

5. Only the Southall riot on 3 July and the disturbance in Walthamstow on 10 July had clear racial connotations. Indian Government has legitimate concern since 20 - 25% of the Indian community are Indian citizens. Widespread public and parliamentary concern in India at rioting. Indian High Commissioner has called on Minister of State (Mr Hurd) and on Home Secretary. Indian Parliamentary Foreign Affairs Committee pressed for President Reddy to call off his visit in protest.

UK Passport Holders

6. Indian concern was expressed before Prime Minister's visit that rate of entry of UKPH should be speeded up. Rajiv Gandhi told the High Commissioner that this was a point of considerable concern to the Indian Government. He argued that the quota for India should be substantially increased, even if this meant a lengthening of the queues for other categories of immigrants, and that a favourable statement on the quota before the visit would promote its success.

7. Since the Prime Minister's visit we have heard less from the Indians about this issue though it probably remains one of considerable concern to them.

RAJIV GANDHI'S PROGRAMME

Monday 27 July

Evening Reception by Secretary-General, Commonwealth
2000 Dinner by Indo-British Association

Tuesday 28 July

1000 Meet Office-bearers of Indian Overseas
organisations
1930 Supper at Buckingham Palace
2130 Proceed from Buckingham Palace to Hyde Park
by coach
2200 Firework display and grand concert in Hyde
Park
2240 Return to Buckingham Palace by coach and
depart

Wednesday 29 July

0930 Leave hotel for Indian High Commission
0945 Leave Indian High Commission for St Pauls
1100 Wedding service
1300 Lunch at the Bank of England given by the
Prime Minister
1800 Reception at the Banqueting House given by
Lord Carrington

Thursday 30 July

1300 Lunch by Mr Douglas Hurd
2000 Supper party given by Prime Minister (subject
to confirmation)

RAJIV GANDHI, MP

Congress (I) Member of Parliament (Lok Sabha) for Amethi, U.P. since June 1981.

Born 1944. Elder son of Mrs Indira Gandhi and late Feroze Gandhi and grandson of late Jawaharlal Nehru.

Educated Doon School, Dehra Dun and Trinity College Cambridge (1962-65). Read engineering but did not get a degree (reputedly through lack of application rather than lack of ability).

On return to India trained as a commercial pilot and joined Indian Airlines, India's domestic airline service, and remained with them as a pilot until May 1981. Resigned to stand for Indian Parliament. Elected 14 June 1981 in by-election for Amethi seat previously held by his late brother, Sanjay. Received 80% of the votes.

Rajiv Gandhi has been drawn into the political vacuum created by the death (in June 1980) of his younger brother, who had been his mother's only trusted confidant. His entry into politics was carefully stage managed and scrupulously above-board: the style markedly different from Sanjay's. It is not yet clear what formal role he will play. He has said he will concentrate on being an effective constituency MP but he is already informally involved in some policy questions. Congress I is politically dominant, and he could be groomed to succeed his mother as Prime Minister.

He is quietly spoken, courteous and diffident, but mentally tough and likely to be of fairly independent mind. He is not an intellectual and is still sensitive about his failure to complete his degree at Cambridge. He is a good listener and seems sincerely concerned to get to grips with some of India's national problems. He knows he has a lot to learn and is ready to work at it. His decency and ancestry should appeal to a wide cross-section of Indian society.

He married in 1968 and has a son and a daughter. His wife, Sonia, is an attractive, quiet-mannered Italian whom he met at Cambridge. She gets on well with Mrs Gandhi but has no interest in politics.

BRIEF FOR GENERAL USE WITH COMMONWEALTH VISITORS (INCLUDING THOSE FROM AUSTRALIA, BARBADOS, CYPRUS, GUYANA, INDIA, MALAWI, NIGERIA, SINGAPORE, SRI LANKA AND ZAMBIA) DURING ROYAL WEDDING

COMMONWEALTH MATTERS

POINTS TO MAKE

COMMONWEALTH HEADS OF GOVERNMENT MEETING (CHGM)

1. Looking forward to CHGM. Hope you/your head of government will be present. Relief to have a CHGM no longer dominated by Rhodesian problem. Could be very useful meeting.

COMMONWEALTH FINANCE MINISTERS MEETING (CFMM) (IF RAISED)

2. Regret disruption of Commonwealth business. Sympathise with New Zealand government who did all they believe they properly could to persuade those concerned to call off tour. Saw no justification for a change in venue of CFMM but, in interests of Commonwealth harmony, we shall attend Nassau.

GLENEAGLES AGREEMENT AND SPORTING CONTACTS WITH SOUTH.AFRICA (IF RAISED)

3. Hope Commonwealth will not allow consideration of Gleneagles Agreement to become over intrusive at CHGM. Do not think Agreement's modification warranted. Hope discussion of it can be reserved for informal consideration during (Canberra) weekend retreat.

FOR USE WITH AUSTRALIAN PRIME MINISTER ONLY:

4. Share Australia's concern that CHGM should be a success. Particularly hope that it will not be dominated by Southern African issues.

5. Prime Minister enjoyed previous visits to Australia and much regrets unable to accept invitation to stay on in Australia for a few days after meeting.

FOR USE WITH PRESIDENT OF CYPRUS ONLY:

6. (If raised) Inappropriate to convene Commonwealth Committee on Cyprus at a time when it might cut across inter-communal talks.

FOR USE WITH PRESIDENT OF INDIA ONLY:

7. Would be delighted if 1983 CHGM were held in Delhi. India has obvious claim.

/8. (If raised)

8. (If raised) Pakistan's renewed Commonwealth membership a matter for Commonwealth as a whole. We for our part would welcome it, but are conscious of Indian caution; we would not wish to see issue promoted in circumstances that could lead to controversy within Commonwealth.

FOR USE WITH PRESIDENT OF MALAWI ONLY

9. Very sorry to hear President Banda will not be attending this year's CHGM.

FOR USE WITH PRIME MINISTER OF SINGAPORE ONLY:

10. Look forward to hearing your views at CHGM on international economic issues. Always welcome element of rationality which Singapore customarily injects into such discussions.

FOR USE WITH PRESIDENT OF SRI LANKA

11. Understand Sri Lanka Exhibition (at Commonwealth Institute) is great success.

COMMONWEALTH MATTERS

ESSENTIAL FACTS

COMMONWEALTH HEADS OF GOVERNMENT MEETING (CHGM)

1. In Melbourne 30 September-7 October with weekend retreat in Canberra. Replies due mid-July to Commonwealth Secretary-General's circular letter on agenda. We have recommended that Prime Minister's reply indicate general agreement with Mr Ramphal's ideas and make no substantive new proposals. Next step (probably early August) is circulation by Mr Ramphal of annotated agenda.

COMMONWEALTH FINANCE MINISTERS MEETING (CFMM)

2. Next meeting of Commonwealth Finance Ministers (CFMM) (22-23 September) will take place in Nassau, Bahamas, following discussion at two meetings (10 and 21 July) of Commonwealth Committee on Southern Africa (CCSA) of Nigerian proposal that venue be moved from Auckland if Springbok tour of New Zealand which began 19 July, went ahead. Final decision taken (on 21 July) despite New Zealand Government appeal, which we supported, for its postponement until after Mr Muldoon's arrival in London on 27 July (for Royal Wedding). New Zealand Government will almost certainly not be represented at Nassau, but we shall attend in interests of Commonwealth harmony.

GLENEAGLES AGREEMENT

A 3. Copy annexed: certain to be discussed at CHGM. Four Caribbean Governments (including Barbados) have already indicated their intention of raising it there with a view to securing its more effective implementation; and Nigeria may produce a new draft agreement for consideration. We had hoped that this subject could be reserved for informal discussion by heads of government at weekend retreat, but the furore over the change in CFMM venue, and Mr Muldoon's resulting bitterness, now make this unlikely.

AUSTRALIA

4. CHGM hosts. Immensely keen to make meeting a success and eg

/have

have sent delegations (led by Ministers and senior back-benchers) to all Commonwealth countries attending. Australian Foreign Minister visited UK 10-14 June and had talks with Prime Minister on 12 June when he delivered invitation from Mr Fraser to stay on in Australia for a few days after Meeting (Prime Minister has declined because of Conservative Party Conference, at which Mr Fraser has agreed to speak). On agenda Australians share Pacific, Caribbean (and UK) concern that Southern African issues should not loom too large.

BARBADOS

5. Mr Adams attended last CHGM (Lusaka 1979) where he exhibited a special interest in Belize and world economic questions.

CYPRUS

6. Commonwealth Committee on Cyprus set up at 1975 CHGM (in Jamaica) a propaganda machine for the Greek Cypriots and, thankfully, dormant since 1977. But communique issued at 1979 CHGM (in Lusaka) included decision (in response to Cypriot pressure) to ask Commonwealth Secretary General to convene Committee at Ministerial level whenever appropriate. Ramphal has however told President Kyprianou that he does not intend to convene Committee unless so requested by President himself. Latter has not since done so.

GUYANA

7. Was represented at 1979 CHGM (in Lusaka) by Guyanese Minister of Foreign Affairs.

INDIA

8. Mr Ramphal has suggested to Mrs Gandhi that India host next (1983) CHGM. Mrs Gandhi responded positively but apparently worried whether offer would be welcome to other heads of government. It will be South Asia's turn in 1983 to host a CHGM. Three possible candidates: Bangladesh, Sri Lanka and India. Latter is regionally the most significant, has the most suitable capital and, as the last

/Commonwealth,

Commonwealth Heads of Government Regional Meeting (CHGRM)'s successful host, has good claim.

9. President Zia would like to see Pakistan rejoin Commonwealth. Pakistan's readmission in British, Pakistani and Commonwealth interests. Until recently informal soundings have met with strong Indian objections suggesting little prospect of movement before CHGM, but in wake of Indian Foreign Ministers's recent visit to Pakistan and expectation of some improvement in their bilateral relations, Pakistan now seems to be contemplating some form of initiative. Agha Shahi recently approached Secretary of State on matter in New York. Difficult as yet to know likely Indian reaction, which is key. At the least, CHGM could see useful discussion of matter in corridors.

MALAWI

10. President Banda has let it be known that he will not attend this year's CHGM. In no way surprising: he appeared only for opening day of Lusaka CHGM.

NIGERIA

11. Nigerian delegation to 1979 CHGM was led by (then) Minister for External Affairs.

12. Nigerian Government hold very strong views on issue of sporting contacts with South Africa (see paragraphs 2 and 3 above).

SINGAPORE

13. Long standing bilateral tension between Singapore and Australia over latter's protectionism may lead Lee Kuan Yew to take a critical (and thus moderating) view of any Australian rhetoric at CHGM on world economic matters.

SRI LANKA

14. As part of their celebrations of 50 years of universal franchise Sri Lanka is mounting major exhibition at Commonwealth Institute

/17 July

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17 July-13 September depicting aspects of Sri Lanka's history and culture, and of its social political and economic life. The Queen opened Exhibition on 16 July.

15. The Queen has accepted invitation from President Jayawardene to pay state visit to Sri Lanka on her way back from CHGM in October 1981.

ZAMBIA

16. Hosted 1979 CHGM and President Kaunda apparently regards himself as Chairman of the Commonwealth (no such office) until next CHGM.

COMMONWEALTH STATEMENT ON APARTHEID IN SPORT

The member countries of the Commonwealth, embracing peoples of diverse races, colours, languages and faiths, have long recognised racial prejudice and discrimination as a dangerous sickness and an unmitigated evil and are pledged to use all their efforts to foster human dignity everywhere. At their London Meeting, Heads of Government reaffirmed that apartheid in sports, as in other fields, is an abomination and runs directly counter to the Declaration of Commonwealth Principles which they made at Singapore on 22 January 1971.

They were conscious that sport is an important means of developing and fostering understanding between the people, and especially between the young people, of all countries. But, they were also aware that, quite apart from other factors, sporting contacts between their nationals and the nationals of countries practising apartheid in sport tend to encourage the belief (however unwarranted) that they are prepared to condone this abhorrent policy or are less than totally committed to the Principles embodied in their Singapore Declaration. Regretting past misunderstandings and difficulties and recognising that these were partly the result of inadequate inter-governmental consultations, they agreed that they would seek to remedy this situation in the context of the increased level of understanding now achieved.

They reaffirmed their full support for the international campaign against apartheid and welcomed the efforts of the United Nations to reach universally accepted approaches to the question of sporting contacts within the framework of that campaign.

Mindful of these and other considerations, they accepted it as the urgent duty of each of their Governments vigorously to combat the evil of apartheid by withholding any form of support for, and by taking every practical step to discourage contact or competition by their nationals with sporting organisations, teams or sportsmen from South Africa or from any other country where sports are organised on the basis of race, colour or ethnic origin.

They fully acknowledged that it was for each Government to determine in accordance with its laws the methods by which it might best discharge these commitments. But they recognised that the effective fulfilment of their commitments was essential to the harmonious development of Commonwealth sport hereafter.

They acknowledged also that the full realisation of their objectives involved the understanding, support and active participation of the nationals of their countries and of their national sporting organisations and authorities. As they drew a curtain across the past they issued a collective call for that understanding, support and participation with a view to ensuring that in this matter the peoples and Government of the Commonwealth might help to give a lead to the world.

Heads of Government specially welcomed the belief, unanimously expressed at their Meeting, that in the light of their consultations and accord there were unlikely to be future sporting contacts of any significance between Commonwealth countries or their nationals and South Africa while that country continues to pursue the detestable policy of apartheid. On that basis, and having regard to their commitments, they looked forward with satisfaction to the holding of the Commonwealth Games in Edmonton and to the continued strengthening of Commonwealth sport generally.

London, June 15 1977.

*Key
Your 9/10/72
AD 21/7*

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: *RuyL*
PS

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

PS/No 10

Copies to:

*See by the file.
T.M.W.
17/7*

PRIVACY MARKING

SUBJECT: INDIA: VISIT TO UK OF PUNJAB CHIEF MINISTER

.....In Confidence

CAVEAT.....

1. You kindly agreed that Mr Darbara Singh, the Chief Minister of the Punjab, should be invited to the Prime Minister's reception this evening, 17 July.
2. Mr Darbara Singh came to the United Kingdom to visit the areas affected by recent rioting, particularly Southall, Liverpool and Manchester. We were not officially informed of his visit, but it is likely that he has come with Mrs Gandhi's approval to seek to calm the anxieties of the Indian community. The Indian High Commissioner has called on Mr Hurd and has also expressed his concern at the danger to Indian citizens. Despite factual reporting in the Indian press of HMG's consideration of firm counter-measures, of the Prime Minister's visits to Southall and other disturbed areas and despite helpful references to the situation by Mrs Gandhi, there remains a danger that Indo-British relations could be damaged.
3. Mr Darbara Singh's visit has already attracted Indian press interest, which is likely to intensify after his return to India. It would be helpful if the Prime Minister were able to give him an account of her meeting with community leaders in Southall which has a large population of Asians of Punjabi origin. She may wish to emphasise that although the riots in Southall were of a racial nature, whereas the others were not, the trouble was not caused by problems between the Asian and white communities of the area who enjoy excellent relations but deliberately provoked by outsiders. There had been no criticism of the local police. Any reassurance which the Prime Minister may convey to

Enclosures—flag(s).....

/Mr

Mr Darbara Singh is likely to be communicated to Asian communities in UK and to Mrs Gandhi.

4. The Indian High Commission, in approaching us informally about the possibility of a call on the Prime Minister by Mr Singh, stressed that his concern during his visit was to help to allay anxieties and to calm down the situation. They assured us that, in anything he said to the press about his conversation with Mrs Thatcher, this would be his aim.

5. Mr Darbara Singh who was born in 1916 has been Chief Minister of the Punhab since June 1980. He was hand-picked for the appointment by Mrs Gandhi and is a life-long Congress, new Congress I party maker at both state and national level. He has been involved in Punhab State politics since 1952 and held several ministerial appointments in the State Government.

India

CF to hls

2 June 1981

Message from Mrs. Gandhi

I enclose a copy of a letter which the Prime Minister has received from the Prime Minister of India. No further action would seem to be required.

MODBA

R.M.J. Lyne, Esq.,
Foreign and Commonwealth Office.

ls

MFJ

2 June 1981

I am replying on the Prime Minister's behalf to your letter to her of 2 June. I have placed the letter which you enclosed from the Prime Minister of India before Mrs. Thatcher.

MODBA

His Excellency Dr. V.A. Seyid Muhammad

Sh



T. 75 d/89.
INDIA HOUSE,
ALDWYCH,
LONDON, W.C.2.

Dr. V.A. Seyid Muhammad

LON/POL/123/1/81

June 2, 1981

Excellency,

missing at review

I have the honour to forward a letter from
Smt. Indira Gandhi, Prime Minister of India, addressed
to you.

I avail myself of this opportunity to renew
to Your Excellency the assurances of my highest
consideration.

V. A. Seyid Muhammad

The Rt. Hon. Mrs. Margaret Thatcher,
Prime Minister,
10, Downing Street,
LONDON SW1

Mc Martin

FILE

VLB

Inlet

15 May 1981

Call by Mr. G.D. Birla

Mr. Birla called on the Prime Minister as arranged on the morning of 13 May. Most of the conversation was of a general nature (and included the revelation by Mr. Birla that his last call at No. 10 had been to visit Mr. Baldwin!). However, it may be worth noting that Mr. Birla placed a good deal of stress on his wish to co-operate with a British firm (he mentioned Humphreys-Glasgow and Foster-Wheeler) in developing a coal-based fertiliser. He believed that there was considerable potential in this area: India's needs were vast. He said he wished to keep the Prime Minister fully informed about the development of the project. The Prime Minister suggested that he should write to me and this was agreed.

I am sending a copy of this letter to Roderic Lyne (Foreign and Commonwealth Office).

MICHAEL ALEXANDER

Mrs. Catherine Capon,
Department of Trade.



From the Secretary of State

M O'D B Alexander Esq
Private Secretary
10 Downing Street
London, SW1

12 May 1981

Dear Michael

CALL BY G D BIRLA

- ... I enclose suggested talking points and a
- ... background note on fertilisers and the
- ... Festival of India as well as biographical
- ... details and a note on the Birla Group for
- ... the Prime Minister's meeting with Mr Birla
- ... at 10.00 tomorrow.

Yours sincerely
Catherine Capon

CATHERINE CAPON
Private Secretary



VISIT OF G D BIRLA
Brief for the Prime Minister

POINTS TO MAKE

Commercial

- (i) Very glad to have head of India's largest private concern here discussing business with UK firms. Birla's size, experience and variety of interests should afford many worthwhile opportunities for co-operation with British firms and for diversifying the traditional patterns of Indo-British trade.
- (ii) This diversification is crucial to remedying India's increasingly adverse balance of trade with the UK - a major concern of the Government of India.
- (iii) Hope Mr Birla's discussions with the process plant contractors (Humphreys-Glasgow, Kellogg, Foster Wheeler) about his fertiliser plant project have been fruitful. UK has been closely associated with the development of India's fertiliser industry. Has much skill and experience to offer.

Festival of India

- (i) The Festival of India (spring to autumn 1982) will be an important event in Indo-British relations.
- (ii) Mrs Gandhi and I are joint patrons.
- (iii) We shall do all we can to make it a major success.



(iv) [if raised] Financing is proving a little difficult. The Government is already a major contributor (through DES and the Arts Council). Festival trustees still seeking substantial sums from private sources.

BACKGROUND

Notes on G D Birla himself and on the Birla Group are attached.

Government of India aims to become self-sufficient in fertilisers. There is ample feedstock (coal and, more recently, offshore oil and gas). Over the past decade HMG has approved some £150m capital aid for 8 fertiliser projects. But consumption continues to outstrip production and currently planned increases in capacity are still expected to leave a shortfall of 3 million tonnes at the end of the 1980s.

The Indo-British trade balance was £105 m in India's favour in 1977; £213m against her in 1980. Concern about this shift is a constant theme of the Government of India. An important part of the problem is that the most progressive and technically competent Indian firms have a huge and highly protected home market and therefore little incentive to look for sales overseas.

The Festival of India trustees need an additional £200,000 to complete the financing of the main programme. Fund raising from private sources has raised only £50,000. HMG are also contributing around £1m through the DES and Arts Council budgets. No more Government money is available.

A statement by the Prime Minister of her support for, and interest in the Festival might enhance the prospects of a contribution from Mr Birla, though it is not recommended that the financial aspect be directly mentioned unless he raises it.



G D BIRLA

G D Birla is the founder of the largest and most diversified non Governmental empire in India.

Ghanshyam das Birla was born on 12 April 1894, at Pilani, Rajasthan into a fairly affluent trading family. His formal education ended at the age of 11. He married at 14 and started his career as a broker in jute gunny bags at the age of 16. He had gained considerable prominence by the age of 32, and was then offered a knighthood, which he declined.

His entry into the jute industry brought him in contact with the British whom (according to a recent interview) he admired for their "superiority in business methods, their organising methods and many other virtues" but he objected to their "racial arrogance".

Now 87 years old, G D Birla is energetic and mentally alert. He starts the day at 4 in the morning and attends his office regularly. He was a close associate of Mahatma Gandhi on whom he has written books, and he contributed large sums toward the independence struggle. Critics of Birla say that his association with Gandhi was an investment which later enabled him to gain economic and political muscle to manipulate levers of power.

Frugal and puritanical by nature, he is deeply religious in an unorthodox fashion. He is very particular about punctuality and fond of reading, painting, cooking, singing devotional songs and traveling in his 25 year old converted Dakota DC-3. He is known for his quick perception, clear thinking and capacity for taking calculated risks. He is the founder member of educational and public foundations, but prefers to keep a low profile on the national scene, refusing to discuss politics and present day politicians.



BIRLA GROUP

Now India's largest industrial concern, the Birla Group (textile based conglomerate) overtook the Tata Group (steel, power, truck based) a few years ago. Both Groups have assets of about US \$1.5 billion each. The Birla group now encompasses 69 companies producing hundreds of items ranging from cloth to jute to paper and aluminium, from cement and cars to alloy and machinery. They produce goods and services valued at Rupees 3.77 crores (nearly £2 million) per day and employ an estimated 500,000 people. In recent years the Birla Group has become more and more involved in projects overseas, particularly in West Asia and West Africa. They are also actively involved in shipping. G D Birla is the cementing factor which holds the Birla family and companies together. There is some rivalry and unfriendly competition between the grandsons of G D and of his two brothers now that each of them have their own companies.



De KB

12/5

10 DOWNING STREET

MR. G D BIRLA

From the Private Secretary

5 May 1981

VISIT OF G D BIRLA

The Prime Minister would be prepared to receive Mr. Birla for a courtesy call. A convenient time for the Prime Minister will be at 1000 on Wednesday, 13 May.

M. O'D. B. ALEXANDER

Mrs. Catherine Capon,
Department of Trade.

RH



From the Secretary of State

M Alexander Esq
Private Secretary
10 Downing Street
London SW1

Prime Minister

Hope that we should fit
him in for a working call?

1 May 1981

Yes no.

Phnt 1/s

Dear Michael

VISIT OF G D BIRLA

As I mentioned to you last week on the telephone the High Commission in Delhi have advised us that Mr G D Birla, Head of the Birla House - probably the largest private industrial group in India, will be arriving in London on Sunday 3 May for a stay of about two weeks. One of the purposes of his visit is to discuss a fertiliser project with the process plant contractors and the Department is facilitating this.

I understand that Mr Birla hosted a meal for the Prime Minister when she was in Bombay and was invited by her to call on her when he was next in London. Mr Birla would like to take up this invitation during his stay and he is expected to contact the Department on arrival in London. If the Prime Minister feels that she would like to see Mr Birla perhaps you could advise me about a possible time which our officials will pass on.

Yours sincerely

Catherine Capon.

MRS C CAPON
Private Secretary

1000 on Wed 13 May

*Subject filed as India: PBT
Vint 1981: Policy*

RECORD OF A CALL ON THE PRIME MINISTER BY INDIAN MEMBERS OF
PARLIAMENT ON THURSDAY 16 APRIL 1981 AT 1600 HOURS AT
RASHTRAPATI BHAVAN, NEW DELHI

The Prime Minister held a meeting at the Rashtrapati Bhavan on 16 April with the following Indian Members of Parliament from the Congress (1) Party:-

Mr. Eduardo Faleiro: Goa
Dr. Shanker Sharma: Madhya Pradesh
Mrs. S. Kaur: Punjab
Mr. N.K. Sharma: Rajasthan
Mr. R.L. Bhatia: Punjab
Mr. B. Gadjil: Maharashtra
Mr. J. Tytler: Delhi
Mrs. M. Sultan: Madhya Pradesh
Dr. Lokesh Chandra

After being welcomed by the Prime Minister, Mr. Faleiro said that he and his colleagues had been glad when they heard that the Prime Minister was coming to India. They had been charmed by her performance on television the previous evening. Their hope was that Indo-British relations, which were already good, should be further improved. However, there were one or two problems on which they wished to express their views, in particular the question of the British Nationality Bill and of the "hostile treatment" of Indian visitors arriving at Heathrow. They recognised that the Nationality Bill was a matter lying entirely within the prerogative of the British Parliament. He then invited Dr. Shanker Sharma to speak.

Dr. Shanker Sharma (a former Minister of Communications) said that his starting point was the belief, which he and many Indians shared, that the British people had a tradition of liberal thought and a liberal approach to all problems. The Indians were therefore upset if anything happened which conflicted with their view of Britain. In this spirit he wished to bring to the Prime Minister's notice that there were in India some 40,000 people of Indian origin who had come from the former British Colonies after they became independent. Although they held British passports it had been recognised that they could not all be admitted to Britain at once, and there was an understanding that they should come to India in the meantime, but would be able to enter the United Kingdom in due course. They now found that only about 500 (annually) were admitted and even then with some difficulty. This created a problem. He and his colleagues received many letters and

/ petitions

petitions, and the issue was used by other political parties to embarrass the Congress (I) Party.

He hoped the Prime Minister would find a solution to the problem and to the problem of "those born afterwards" (presumably a reference to the children of UKPH born after enactment of the Bill). This would be in the larger interests of Indo-British relations and would enhance the reputation of Britain in the minds of right-thinking Indians. They had a warm feeling about Britain which they wished to treasure.

There was also the question of harrassment of visitors at Heathrow which he was sure the Prime Minister and her government did not condone. He understood that no visa was needed by Indian visitors, but he advised people who approached him to take a letter with them in order to avoid embarrassment. India had, he believed, more English speaking people than any other Commonwealth country except Britain herself. Indo-British friendship was an asset for India and he hoped also for Britain.

In reply, the Prime Minister stressed that those people who were permanently settled in Britain would not be affected by the new legislation. There were about half a million people of Indian origin who now belonged to Britain and were British citizens because they had their permanent home there. Furthermore the British Government had responded swiftly to concerns expressed by the Indian Government over certain aspects of the Bill and as a result had introduced 4 major amendments. The effect of these was:

- (a) to enable British citizens who had acquired their citizenship by grant rather than by birth to transmit it in the same way as British citizens by birth;
- (b) to provide for children born in Britain to parents neither of whom were British and neither of whom were permanently settled in Britain to acquire British citizenship by registration after they had lived for 10 years from birth in the United Kingdom;

/ (c)

- (c) to extend the grace period for registration of those with an entitlement to British citizenship through registration from 2 years to 5 years;
- (d) to provide British Overseas Citizens, Citizens of Dependent Territories, British Subjects under the Bill and British Protected Persons with an entitlement to be registered as British citizens after they had lived for 5 years in Britain. This was a major improvement on the arrangements for them as originally drafted.

The Prime Minister stressed that there was nothing racial or religious in the Bill, and that she had been greatly hurt by allegations to the contrary.

As regards UKPH, the Prime Minister pointed out that their existing right to come to the United Kingdom was not affected adversely by the Bill. She accepted that the number allowed in was lower than it had been, but pointed out that there were now 2½ million unemployed in Britain, and that last year the UK had accepted for settlement from the new Commonwealth 35,000 people who came in as dependants, and that another 30,000 had chosen to register as British citizens. She pointed out that the figure of 500 UKPH admitted for entry was misleading because it did not include their dependants who were also allowed in. An increase in numbers would not make for racial harmony. Until the events in Brixton a few days earlier, she had been pleased with the way things were going. The West Indians posed a particular problem because, unlike people from the Sub-Continent, they had no tradition as small businessmen and could not easily find employment. She was deeply concerned and shocked by what had taken place in Brixton, and had agreed with the Home Secretary to set up an inquiry under an eminent judge in order to try to ensure that it never happened again.

Reverting to the UKPH question the Prime Minister said that because of high unemployment this was not the time to increase the quota. The only way to do this would be by taking in UKPH

/ instead

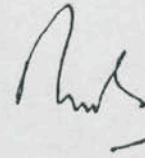
instead of dependants of people already settled in Britain. This would cause great hardship to some families.

The Prime Minister went on to say, in relation to the allegations of harrassment at Heathrow, that the isolated "virginity test" case should never have happened and arrangements had been made to prevent it happening again. X-rays had occasionally been used for age assessment where other documentation was lacking, but that practice had now been suspended. The High Commissioner pointed out that arrangements had now been made for the Indian High Commission to be contacted from Heathrow in cases of difficulty involving Indian citizens. In answer to a question about sterilisation of women, the Prime Minister replied that there was no such thing as compulsory sterilisation in Britain. For such an operation to take place it was necessary to have the consent not only of the woman concerned but also of her husband. Sir John Graham said that the Deputy High Commissioner at the Indian High Commission in London had told him that the report filed on this subject by an Indian correspondent in London was incorrect and that the journalist concerned had admitted that he had got it wrong.

The Prime Minister went on to point out that of the 190,000 visitors to the UK from India last year only about 6 in a thousand had been turned back; this was a smaller percentage than from many other countries. She advised prospective visitors to the United Kingdom to come with a letter or an entry certificate. The immigration officials did an excellent job in the face of great difficulties. For example, she had recently investigated a case involving a family in her constituency who had complained about the way in which a relative had been questioned on arrival. Her enquiries had revealed that 2 other members of the family who had earlier entered the UK had both overstayed. In such circumstances it was not unnatural that an immigration official should be suspicious.

/ In

In answer to a question from one of the MPs, the Prime Minister said that it was necessary to be firm sometimes and at the same time to be fair and to be seen to be fair. It was easy always to say 'yes' but this did not solve any problems. In response to a query about the lack of any provision in the proposed legislation for appeals in naturalisation cases it was pointed out that this was not normally provided in the citizenship legislation of other countries. It did not exist in India.

A handwritten signature in dark ink, appearing to be 'Rajiv', with a horizontal line underneath the name.

18 April, 1981

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Subject filed as India
PE 1: Vint 198: Policy

RECORD OF A MEETING AT THE RASHTRAPATI BHAVAN ON 16 APRIL 1981
BETWEEN THE PRIME MINISTER AND MR. MUKHERJEE, MINISTER OF COMMERCE
AND STEEL, GOVERNMENT OF INDIA

Present:

Prime Minister	Mr. Mukherjee, Minister of Commerce and Steel
Sir John Thomson	Mr. Kaul, Secretary, Ministry of Commerce and Steel
Sir John Graham	
Mr. Mathrani	
Mr. T.P. Lankester	

Welcoming Mr. Mukherjee, the Prime Minister reported very briefly on her discussion that morning with the Minister of Finance. She had told him that HMG was trying hard to hold off the pressures for protection. The UK economy was one of the most open in Europe, certainly more so than the French. It seemed that some of India's quotas were not fully taken up; so for those goods covered by quota, there was potential for expansion.

Quota Transferability

Mr. Mukherjee said India was trying to impress on the EEC the need for transferability of quotas. At present, quotas were fixed on a country by country basis. If one country's quota was fully taken up, there ought to be provision for transferring to it any unused portion of other countries' quotas. This could, in effect, be achieved if the Commission were to fix the quota for an individual product for the EEC as a whole. This is what in future they ought to do.

He had discussed this matter with Mr. Biffen when he had visited India a few months previously: he hoped the UK would take it up with the Commission.

Folkloric Garments

Mr. Mukherjee said that the Indian Government was concerned about the folkloric garments being held up by the Customs. He understood that 20,000 pieces were being held, of which only 3 to 4 thousand had been cleared for delivery. There were certainly some pieces that would not stand the test of being hand made; but in their view, at least 10,000 qualified and should be

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/ released

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- 2 -

released forthwith. He felt that the Customs interpretation of what was folkloric was too narrow. The only essential criterion should be whether or not the garments in question were machine made.

Mr. Kaul said that there had been considerable delay in dealing with this problem, and he hoped that there would be immediate discussions between the two Governments about it. The exporters whose goods were being held up were small businesses, and they were facing considerable difficulties. One way of dealing with the problem, which the Indian Government would be willing to accept, would be to debit any consignments which were not genuinely folkloric against the coming year's quotas. The Prime Minister said that she was aware of this problem, and she had spoken to Mr. Biffen about it before leaving. She understood that the Indian High Commission in London were agreed that some of the items in question were not folkloric, and that others were being retained at the instance of the EEC Commission. She felt, in any case, that the problem needed to be looked at in context. Between 1978 and 1980 folkloric imports had increased from 17,000 pieces to 883,000 pieces. This was a very rapid rise which showed that the UK was doing its best to help India's folkloric exports. The value of garments currently retained was only £75,000, against £3½ millions' worth of imports in 1980. Nonetheless, she agreed that there should be early talks between the two sides to try to resolve the issue.

Opium

Mr. Kaul said that there was concern in India that UK imports of opium had been stopped.

The Prime Minister said that opium imports were permitted for pharmaceutical manufacture, and the Government did not interfere in the sourcing of these imports. Sir John Thomson added that it was certainly the case that UK importers had switched from buying from India to buying from Australia. The Prime Minister said that HMG would look into this problem as it affected India.

/ Groundnuts and Cotton seed

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Groundnuts and Cotton Seed

Mr. Mukherjee said that they were very concerned about the recent ban on imports of groundnuts and cotton seed to be used in cattle feed. They accepted that those products which exceeded the international norms for Aflatoxin should be kept out. But they felt that India was being discriminated against. For example, the UK was continuing to import soya beans from the US, which also contained significant amounts of Aflatoxin.

The Prime Minister said that because of the cancer risk for children identified in a recent report, the Government had felt obliged to act quickly. Soya beans did not contain the same quantity of Aflatoxin. But there had been no intention to discriminate against India. The Government intended to produce definitive regulations very shortly, and she understood that India's views were being taken into account.

Sir John Thomson said that 12 countries were affected by the ban on imports of groundnuts and cotton seeds. Mr. Mathrani added that the ban had been imposed only after the receipt of a report by professional experts. This showed clearly the basis on which the ban had been imposed, and a copy of it had been sent to the Ministry of Commerce.

Mr. Kaul said that they had not received this report. The Prime Minister said that she would ensure that another copy was sent immediately.

Shipping

Mr. Mukherjee said that there were inadequate facilities for containerisation on the existing conference fleets between India and the UK - especially those operating from Eastern India. This meant that the cost of shipping between the two countries was excessive. Mr. Kaul said that the conference fleets were very old. The Indian Government had tried to persuade the shipping companies to modernise and to buy containerised ships. The Indian companies were willing to do so, but not the UK companies. They had

/ asked

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asked the Department of Trade to take this up with the UK shipping line.

The Prime Minister said that she would follow this up.

Balance of Trade

Mr. Mukherjee said that since 1977 India's balance of trade with the UK had gone significantly negative. India very much wanted to improve its exports to the UK. He had already referred to some immediate problems. On the question of quotas, although there were some that were not fully taken up, there were others that were. He cited the quota on tobacco, which - since its imposition under the GSP - had severely reduced the UK's imports from India. More generally he felt it would be desirable if there could be some institutional arrangement to review the whole trading situation between the two countries. He understood that HMG were averse to issuing any kind of directions to traders, but he felt that - following such a review - it might be possible for HMG to issue some kind of general direction designed to improve the balance of trade from India's point of view.

Mr. Mathrani said that HMG were very willing to cooperate on measures to promote bilateral trade. For example, they had arranged a visit for Indian businessmen, and they were willing to provide Indian exporters with technical assistance.

Coastal Steel Plant

In response to a question from the Prime Minister, Mr. Mukherjee said that the critical meeting for reviewing the various proposals for the steel plant was scheduled for 22 April. They had hoped to reach a decision on it earlier, but it had been delayed by the late proposals from Romania and from Metchem of Canada.

The meeting finished at 1545 hours.

16 April, 1981.

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~~Mr. Alexander~~

Subject filed on
India: Pt 1: Vint 1989
Policy

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RECORD OF A MEETING AT RASTRAPATI BHAVAN ON 16 APRIL 1981
AT 1115 BETWEEN THE PRIME MINISTER AND MR. VENKATARAMAN,
MINISTER OF FINANCE, GOVERNMENT OF INDIA.

Present:

- | | |
|-------------------|--|
| Prime Minister | Mr. Venkataraman, Minister of Finance |
| Sir John Thomson | Mr. Malhotra, Ministry of Finance |
| Sir John Graham | Mr. Bhalla, Ministry of External Affairs |
| Mr. Mathrani | |
| Mr. Tim Lankester | |

Coastal Steel Plant

After exchanging courtesies, the Prime Minister said that she had just had a long talk with Mrs Gandhi and Mr Mukherjee about the coastal steel plant contract. She had tried, in particular, to clarify HMG's position on the aid that would be available if Davy were to win the contract. Mr. Mukherjee seemed to be under the impression that the UK would be simply reallocating part of the existing provision for India. She had tried to make clear that this was not so. The UK Aid Programme was now basically split into two: there was an aid provision for individual countries, and there was a provision for project aid which was intended to help UK industry win contracts throughout the developing world. The latter was only available for UK led bids. If Davy did not win the steel contract, it could very well be that the aid which was intended for it would not go to India, but to another country. The Davy bid was very competitive, and it was supported by a generous aid package; there would also be a French aid component. She had great hopes that Davy would win; it would do much to cement Indo/British relations.

Mr. Venkataraman said that the Government of India were actively considering two proposals - the one from the UK, the other from the Federal Republic of Germany. If the UK led bid was competitive, he saw no reason why it should not win.

Mr. Malhotra said that they were quite clear that the aid on offer in support of the Davy bid would only be available to India if Davy won it. The question of reallocation

had only been raised by the Indian Government in the context of the substantial decline in the UK aid provision for India over the coming year. The offer of aid towards the steel plant alongside the decline in the general aid provision caused them considerable embarrassment in relation to other donors. In particular, the Germans were not cutting their overall level of assistance (which was running at DM 400 million this year), and they had not tried to link their programme with their bid for the steel plant. Mr. Venkataraman added that the UK's general provision for India was being cut from £140 million in 1980/81 to £87 million in the coming year, which was inclusive of the retroactive terms adjustment. Sir John Thompson commented that the ceiling for the coming year was in fact £97 million.

The Prime Minister said that the UK had had to reduce its overall aid programme. Sir John Graham said that the reduction in the Indian programme was not greater proportionately than for other countries. Sir John Thompson said that the UK was India's largest bilateral donor, and in 1980/81 India had in fact received from the UK £10 million more than it had expected.

The Prime Minister said that the Government of India seemed to be criticising the UK because of the disproportionately large size of its aid programme in the past. The UK had tried to be most cooperative in its aid and other relations with India, and she hoped that - in the context of the current steel negotiations - India would not "take it out" on the UK now.

IDA Replenishment

Mr. Venkataraman said that the Government of India were worried about the sixth and seventh replenishments of the International Development Assistance (IDA). Negotiations for the seventh replenishment would be getting under way shortly. India was concerned that if IDA's resources were not increased, development assistance to developing countries would be badly affected. He hoped that the UK would do their utmost to persuade other countries, and in particular the USA, to be generous. As regards the sixth replenishment, they were concerned about the revised profile of contributions announced

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by the new US Administration. The US had not reduced their total contribution but the contribution in the first two years of the replenishment period would be sharply down on the previous Administration's intentions. Mr. McNamara, visiting India recently, had indicated that IDA would shortly run out of commitment authority because of the changed US position. The situation would be even worse if other donor countries were to follow the US; it was important that they should stick to their previously announced commitments.

The Prime Minister said that the UK contributed a higher proportion of GDP to IDA than most other countries. She sometimes wished that we did not, and instead concentrated more on bilateral aid. For the UK seemed to get more credit for its bilateral aid efforts. She cited the example of Bangladesh, whose President had criticised the UK for not being generous enough. But he had not seemed to understand that the UK was making a large contribution to Bangladesh aid receipts through IDA. The Prime Minister went on to say that she understood the problem of the sixth replenishment caused by the US Administration's decision, and she supposed that projects such as the Sri Lanka dam proposal would be affected. Sir John Graham asked whether India had made direct representations to the US about the problem. Mr. Venkataraman replied that they had indeed done so. Secretary Regan had replied in terms which were helpful^{only} to the extent that he had affirmed that the Administration stood by its commitment in terms of the total contribution to the sixth replenishment. He repeated that both they, and the World Bank, were worried about the revised profile of payments. Mr. Malhotra added that India was also worried about the attitude of the US Congress.

Trade and Protection

Mr. Venkataraman said that India was concerned about what appeared to be the growing protectionism of the developed countries. Unless they kept their markets open, the developing countries would not be able to purchase the plant and equipment needed for their development programmes. India was faced with a growing balance of payments problem. It was spending \$7 billion

/ per year

per year on oil imports, which constituted 72 per cent of export earnings. He hoped that the UK Government would do everything possible to hold off protectionist pressures, and to persuade its EEC partners to do likewise.

The Prime Minister said that the UK had an open door policy on trade: the UK market was far more open than that of some other EEC Countries, who too often used non-tariff barriers to keep out imports. UK consumers, in any case, would not tolerate greater protection. But Japanese imports were a real problem - not only for UK industries, but for other countries trying to compete in the UK market. Mr. Mathrani commented that many of India's UK quotas were not filled. Mr. Malhotra said that this was true, but for some Indian exports which were growing rapidly, the quotas were too tight.

The Prime Minister went on to say that she fully appreciated the problems for India and other countries caused by high oil prices. She hoped that the Indian Government had made representations to OPEC and also to the Saudi Foreign Minister during his recent visit. She would certainly be discussing oil prices when she visited Saudi Arabia and the Gulf. The UK had for a time tried to hold back the price of North Sea oil, although ultimately this had not proved feasible. She wondered whether any of the OPEC countries had been willing to provide India with rebates on the oil price.

Mr. Malhotra said that India had raised the latter point several times. But only one country, Iraq, had agreed to a rebate. They had agreed a 20 year interest free loan against last year's increase in price; an agreement had been signed, but in the event it had not been implemented because of the Iran/Iraq war.

Thermal Power Plant

Sir John Thomson said that UK proposals for a thermal power plant had been discussed over recent weeks and months with the Indian Government. It would be helpful to have an indication of the Government's position.

/ Mr. Venkataraman

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Mr. Venkataraman said that they were planning on an expansion of electricity capacity of 19,500 megawatts. The infrastructure and project requirements were currently being worked out. Mr. Malhotra added that an investment decision on the particular power plant in question had yet to be made. The Ministry of Power had been asked to enquire with the Planning Commission, who were responsible for allocating the investment budget, whether there was scope for constructing an additional plant.

UK Investment in India

The Prime Minister said that many UK companies wanted to invest in India. But some companies with existing investments felt that they were not getting as good a deal as they might. She hoped that any particular problems could be sorted out. She did not want any feeling that companies were being badly treated to dissuade new investment. She cited the problems which ICI were currently having with their pharmaceutical plant at Ennore. According to the ICI Chairman, the Government of India had frozen the plant's prices at levels of 1970 and 1974, and this was causing heavy losses. Mr. Malhotra said that he would look into this to see what could be done.

Sir John Graham also mentioned the problems of Burmah Oil. Mr. Venkataraman said a tentative decision had been reached on the Burmah issue with a view to an early announcement.

Indo/British Collaboration

The Prime Minister expressed the hope that Indo/British collaboration could be expanded both in India and in third countries.

Mr. Malhotra said that technical collaboration with British firms in India had been increasing very rapidly. There was particular scope for collaboration in the coal industry. There was also great scope for increased collaboration in third countries though - if this were to be successful - British partners had to be prepared to make some sacrifices initially in order to allow Indian companies part of the business.

/ The meeting

The meeting finished at 1205 hours.

T.P. LANKESTER

16 April 1981

cc Sir John Thomson
Sir John Graham
Mr. Alexander
Mr. Mathrani

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SUMMARY RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE
PRIME MINISTER OF INDIA, MRS INDIRA GANDHI, IN NEW DELHI ON
THURSDAY 16 APRIL 1981 AT 0930 HOURS

The Prime Minister had a tete-a-tete discussion with Mrs Gandhi on the morning of the second day of her visit. During the course of the conversation, the two Heads of Government were joined by the Indian Foreign Minister, Mr. Rao, and the Indian Minister of Commerce, Mr. Mukherjee.

A substantial part of the discussion was taken up by an exchange of views on the British tender for the Paradip steel plant. In the course of this Mrs Gandhi explained that it would be difficult for the Indian Government to give the contract to the UK during the Prime Minister's visit as this would certainly result in accusations that the contract had not been awarded on "objective" grounds. At no point did Mrs Gandhi attempt to suggest that there was a quid pro quo for the contract in some other field. The Nationality Bill and UKPH were not mentioned at any stage in the discussion.

The two Heads of Government also discussed the situation in Afghanistan. Mrs Gandhi said that the main reason for the Soviet intervention had been nervousness about the consequences for the situation in the Soviet Asian republics of a collapse in Afghanistan. In her view it would be a long time before Soviet forces were withdrawn. Given the Soviet Government's anxiety about their Muslim population, they would need to be very confident about the situation in Kabul before releasing their hold.

Mrs Gandhi was also concerned about the future policy of the Soviet Government. She had no idea who the next generation of leaders would be. But it was clear that the present generation were the last whose thinking would be dominated by their recollection of the horrors of the last war. Mrs Gandhi thought the next few years were likely to be very dangerous.

Mrs Gandhi repeated, but in more detail, the concern she had expressed to the Prime Minister the previous day about the activities of the Communist Party in India. She said she was perplexed as to how to proceed.

There was some discussion of the situation in South East Asia. Mrs Gandhi explained that she had recognised the Heng Samrin regime because the Pol Pot regime had been intolerable and Heng Samrin had seemed the only realistic alternative. Prince Sihanouk had no future in Kampuchea. The situation there had to be seen in terms of the conflict between China and the Soviet Union. China, in Mrs Gandhi's view, was an expansionist power with ambitions in Mongolia and the North East.

20 April 1981

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Subject filed as India, Pt-1
Visit 1981: Miscy

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
INDIAN FOREIGN MINISTER, MR. RAO, IN DELHI ON 16 APRIL 1981
AT 0900 HOURS

Present:

Prime Minister	Mr. Rao
Sir John Thomson	Mr. Sathe
Sir John Graham	Mr. Hiremath
Mr. Ingham	Mr. Bhalla
Mr. Alexander	

Non-Aligned Meeting

The Prime Minister congratulated Mr. Rao on the way the Non-Aligned Meeting in Delhi had been conducted. Mr. Rao said that the atmosphere had indeed been very good. Consensus had been reached because those who disagreed did not wish to spoil the atmosphere. At the end of the Conference, the Indian Government had suggested the participating States could enter reservations about the conclusions at any time in the next two week. In the event, no reservations had been received.

Commonwealth Heads of Government Meeting

The Prime Minister said that she hoped a similar atmosphere would prevail in Melbourne. She did not think that there were any major difficulties facing Heads of Government though she was aware that the Members from the Pacific were hoping that more time could be spent on the things that interested them. It would be useful if any unavoidable political declarations could be worked out before the meeting assembled. This would save much valuable time. Mr. Rao said that the Indian Government were concentrating on economic issues and hoped to play down or bypass political issues. They thought the Melbourne meeting would be a useful preparation for the subsequent summit meeting in Mexico. He agreed with the Prime Minister about the desirability of preparatory work.

/ North/South Summit

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North/South Summit

After the Prime Minister had referred to the concern of the Mexican Foreign Minister about the fact that the Ottawa Summit would precede the Mexico Summit, Mr. Rao confirmed that this was a source of concern to the Indian Government also. There were those who argued that if the developed countries had a harmonised position as a result of the Ottawa Summit, the developing countries should similarly coordinate their views. However, the Indian Government took a different view. They regarded it as essential that the meeting in Mexico should be the occasion for a free and open exchange of views. There should be no pre-determined positions. For that reason they did not think the developing countries should try to imitate the Ottawa Summit. They should limit themselves to analysing the outcome of the Ottawa Summit and exchanging views about it.

The Prime Minister said that she thought this was very wise. She was aware of the dangers flowing from the fact that the economic summits were carefully prepared by officials and were faced with draft declarations, which they often did not discuss, when they met. However, she doubted whether the Mexico Summit would lead to the taking of firm collective positions by the seven participants. Mr. Rao indicated that he was glad to hear this. The Mexico Summit should not be an occasion for negotiation or decisions. He hoped very much that this would be borne in mind in Ottawa. It was essential that Heads of Government should not come to Mexico with their hands tied. The Mexico meeting would be an input into on-going discussions. He hoped it would help to accelerate the dialogue between North and South. Those involved in the preparatory discussions in Vienna had been careful to avoid committing the Mexico meeting to anything other than a free-ranging and uncluttered discussion.

Iran/Iraq

Mr. Rao commented that many members of the Non-Aligned Movement were going to find it embarrassing to attend the next Non-Aligned Summit in Baghdad if the ^{Iran/Iraq} war was still in progress. The Prime Minister said that perhaps the prospect

/ of the Summit

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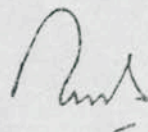
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of the Summit would provide a stimulus to the search for a solution. Mr. Rao agreed but added that there was now a major conflict of personality between the leaders of the two sides. Each appeared to expect the other to fall within two or three months and to see no reason why concessions should be made in advance of that event. Moreover, each regime was accusing the other of attempts to subvert it.

Arab/Israel Dispute

After Mr. Rao had referred to Mr. Haig's recent visit to the Middle East, the Prime Minister said that she thought we were coming to the end of the period of appraisal which had followed the election of a new Administration in the United States. The time for a next step was now approaching. Unfortunately, it was not easy to see what the shape of that next step should be. Moreover the attack on President Reagan's life would no doubt have set back the process of policy formulation in the United States.

The discussion ended at 0920.



16 April 1981

cc Sir John Thomson
Sir John Graham

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~~MR. LANKESTER~~

Subject filed in India: A1:

Visit 1981: Policy

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND MRS. GANDHI
HELD IN SOUTH BLOCK, NEW DELHI ON WEDNESDAY 15 APRIL 1981

Present: Mrs. Gandhi	The Prime Minister
Mr. Narasimha Rao	Sir John Thomson
Mr. Seyid Muhammed	Sir John Graham
Mr. Krishnaswamy Rao Sahib	Mr. M.K. Ewans
Mr. Sathe	Mr. Ingham
Mr. Malhotra	Mr. Alexander
Mr. Kapur	Mr. Mathrani
Mr. Khosla	Mr. Lankester
Mr. Hiremath	Mr. Jay
Mr. Gharekhan	Mr. Wetherell
Mr. Bhalla	
Mr. Ramanathan	

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Mrs. Gandhi welcomed the Prime Minister and referred to the traditional relations between India and the UK. However nothing could be taken for granted and one had to work hard to give relations greater meaning in changed circumstances. It was fortunate that India and the UK shared a common language. She wanted the Prime Minister's visit to be a success and to strengthen friendship between the two countries.

The Prime Minister said she had looked forward to her visit for a long time and hoped to make it a success. She agreed that it was necessary to work hard at the relationship between the two countries and not to take it for granted. She felt there had not been as much contact between India and the UK as there should have been. Her size, and status as a leading democratic Non-Aligned, and Commonwealth, country put India in a unique position of power and influence, which could be exerted for the benefit, not only of India, but of mankind in general. She knew that relations between India and other countries, such as the US, were not as good as might be expected between two democracies. The Prime Minister wanted to learn how India saw things and how one could help to bring to an end hostilities around the world and make sure that greater conflicts did not

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break out. The weapons of evil were greater now than ever before. But though one could analyse problems, it was not always easy to see the way ahead. She referred to her recent visit to the United States, which like India, enjoyed a great position in the world, and said she would like to give Mrs. Gandhi an account of her discussions with President Reagan and Secretary Haig, whom she had seen again after his recent visit to the Middle East.

The Prime Minister said that quite naturally the American Administration's first priority was to put their economic ideas into practice. It was on these that they had concentrated during their first 5 or 6 weeks in office. The Administration were now turning to all the important foreign affairs questions, but they had not yet made up their minds. She had received the very strong impression that they wanted to consult widely. They were aware of the criticism about insufficient consultation which had been levelled at the US in the past. This had led to the adoption of policies which were less successful than they might have been. This was why Secretary Haig had visited the Middle East. The Prime Minister pointed out that many people in the outlying parts of the US were not as familiar with international problems as those in Europe.

The Prime Minister said that President Brezhnev's letter to Western Heads of Government had been received just before her visit to Washington. It needed a careful and considered reply. Like us, the US would have rejoiced if it had been accompanied by a manifest sign that the Russians were ready to withdraw from Afghanistan on certain conditions. President Reagan and Secretary Haig had made it clear that they needed time to consider each point in the letter and that they would not want to negotiate until a US position had been prepared on all the issues, including SALT II and SALT III. The Prime Minister recalled that NATO countries were already pledged to try to negotiate a reduction in the number of tactical nuclear weapons. She said it would take time to set up a meeting with the Russians and that the US might attach conditions to one. Like us, they took the view that one

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could not accept as normal the presence of Soviet troops in Afghanistan. However, there would eventually have to be a meeting. Great sums were being spent on new weapons. Each generation of weapons was more sophisticated, dangerous and expensive than the previous one. But the US Administration would need time. It would also need to carry Congress with it.

On the Middle East, the Prime Minister said that the US Administration had not made up their minds on how best to carry the peace process forward. What the European countries were doing in this area was not in competition with the United States. Only the Americans could bring influence to bear on Israel, and the Middle East problem could not be settled without them. For a long time, there had been talk about the right of the Palestinian people to self-determination and about secure borders for Israel. But the detail of these ideas, including who would have the right to vote and the status of Jerusalem, had not been worked out. In the European Community's effort, the country holding the Presidency was eliciting views in the area itself. No significant move would be made until after the Israeli elections and after the Americans had made up their minds on how to move forward. But there was an acceptance that positive steps had to be taken. At first, the US Administration had thought that, because of the Iran/Iraq crisis, the Arab/Israel problem was not so urgent. But during her visit to Washington, the Prime Minister had explained that the two problems were connected; that feeling about Palestine ran high in the Gulf; and that steps must be taken to solve the Arab/Israel problem, which in turn would have positive repercussions on the Gulf.

Turning to Southern Africa, the Prime Minister said that she was pleased at how Zimbabwe had evolved, though some problems remained. She said that, at the request of the government, British military advisers were in Zimbabwe to help integrate the guerrillas into the security forces. She referred to Lord Soames' recent visit to Zimbabwe and to the successful donors conference. This increased the prospects for genuine democracy in Zimbabwe which could influence

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developments in the rest of Southern Africa in a desirable direction. The Prime Minister said she had discussed Namibia with President Reagan. She had previously talked to the South African Foreign Minister, who had given the impression that South Africa was waiting to see what stand the US would adopt before taking any further steps itself. She had tried to persuade him that there must be movement on Namibia if a difficult motion at the UN was to be avoided. However, though the South Africans had agreed to attend, the Pre-implementation talks in Geneva had not been a success. The UK was impressing on the US the need for progress on Namibia, and wanted to see a free and fair ballot in that country. However, the UK's role was not the same as in Zimbabwe. Instead of being in sole charge, five nations were involved.

The Prime Minister said that the US looked at almost every problem, be it Iran/Iraq, the Middle East, Namibia, Cuban presence in Africa, El Salvador or Libya, very much in an East/West context. This was valid in many cases. Nevertheless, she welcomed the fact that President Reagan was keen to maintain good relations with Mexico. The President had stated that he could not attend the Summit in Mexico in June, but that he might be able to if it were delayed. She stressed again the US Administration's desire to consult widely and to resolve some of the longer standing international problems in the right way. There was a wish to further the cause of democracy throughout the world, and to ensure that it was not in retreat. An open society, with all its problems, remained the best system that had ever been created. It provided the best opportunity for promoting prosperity and human dignity. The Prime Minister said that the US Administration was not, however, judging others, for example, on human rights. Unlike their predecessors, they did not take the view that foreign affairs were governed by this factor. They were much more realistic. She said that she and Lord Carrington had succeeded in influencing them on one or two issues, such as El Salvador. Mr. Rao asked to what extent the US position on El Salvador had been modified as a result of the Prime Minister's talks in Washington. The Prime Minister said that before her visit, a statement had been issued in London saying that there was evidence that the guerrillas

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were getting large quantities of arms from outside. We had condemned that. We condemned violence wherever it occurred. But we took the view that any sovereign country, be it Poland, Afghanistan or El Salvador must sort out its problems in its own way. If one accepted that view, one had to be careful about the number of advisers one sent to any country. The Prime Minister did not think that there were many US advisers in El Salvador.

At Mrs. Gandhi's request, Mr. Rao gave an account of the recent visit by three Non-Aligned Foreign Ministers and the Head of the PLO Political Department to Iran and Iraq. The Group had been asked by the Non-Aligned Foreign Ministers to try to bring about peace between the two countries. In Iran, Mr. Rao said the Group had visited areas close to the fighting. They had been to Dezful and Ahwaz, where there had been intermittent shelling. The purpose of the mission had been to listen to both sides and not to put forward concrete proposals. Mr. Rao noted that, following the failure of the Islamic Conference initiative, to get both sides to accept its proposals, the Non-Aligned Group had felt it more appropriate to try to understand the positions of both sides before making proposals. The Group had been received cordially "and with confidence". In Baghdad it had met Mr. Tariq Aziz and Mr. Izzat Ibrahim who had given them a full account of the Iraqi position. They had spoken of the incessant interference by Iran in Iraq's internal affairs, which had compelled the latter to send their troops in in sheer self-defence. The Iraqis were prepared to have a ceasefire and then negotiate on substantive aspects of the ~~dis~~pute, before withdrawing. The Iranian approach was exactly the opposite. However, the two positions were not as inflexible and diametrically opposed as they might appear. In informal discussion with the two sides, the Non-Aligned Group had found signs of flexibility which needed to be analysed carefully and built on. The Group would meet again in Algiers in two or three days time to compare notes. If issues were identified, on which further discussion with Iran and Iraq was necessary, there would be a second trip to Tehran and Baghdad. In answer to the Prime Minister's question, Mr. Rao said that there was ground for hope, but a solution would take time. The Prime Minister said that it would be a great achievement if peace was

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brought to the area. It would make a great difference to the world economy and might bring down oil prices. Though Mrs. Gandhi doubted whether these would come down, the Prime Minister pointed out that this had happened and there was pressure even now on the premiums. Mr. Rao said that it was something that the fighting between the two countries had not escalated. The Prime Minister spoke of apprehensions that, if peace initiatives showed no sign of success, this might happen. Mr. Rao said that the Non-Aligned Group hoped that its initiative would reduce this danger. He referred to the efforts of others, including Mr. Palme. The latter was concerned primarily with the Shatt-el-Arab, though he accepted that this issue could not be seen in isolation. He had come to no conclusion about how to resolve it. All the strands of the Iran/Iraq dispute were interdependent.

The Prime Minister said that three-quarters of the Indian correspondents she had seen in London last week had asked questions about US/Pakistan and UK/Pakistan relations. She asked for Mrs. Gandhi's views on relations with Pakistan. She had told the reporters that every nation had the right and duty to protect its own people. Mrs. Gandhi said that India fully accepted the right of Pakistan, as of any other country, to defend itself. But it should come as no surprise that Indians were agitated about the supply of arms to Pakistan. On more than one occasion, India had had to face pointless and unnecessary aggression from that country. India had taken the initiative to improve relations. Mrs. Gandhi said that, when the Bangladesh problem had broken out, she had told the West that, unless it exerted its influence on Pakistan, the situation would get out of control. India had taken no action, except for trying to prevent a massive inflow of refugees, until 11 of her cities were bombed. After the Pakistani surrender, there had been a strong feeling in the country that India should not stop but go on to consolidate her position. Without knowing what the reaction of her colleagues and the country would be, she had taken it upon herself to insist on a ceasefire. An hour after the surrender of the Pakistani forces, she had started a series of meetings with the Chiefs of Staff, the Cabinet and leaders of the Opposition. Though these had initially

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been strongly opposed to her line, within two hours she had been able to announce a unilateral ceasefire. Had she waited 24 hours, she would not have succeeded. At Indian initiative, Mr. Bhutto had visited India and the Simla agreement had been signed. Mrs. Gandhi had told him that two types of agreement were possible; one in which it was recognised that the problems of the two countries were complementary (and essentially economic), and that they should work for lasting peace; and another in which it was held that the interests of the two countries conflicted and that only a patchwork peace could be achieved. Mr. Bhutto had taken the line that Pakistan had unsuccessfully tried war and taking its case to the UN, and would now try the course of friendship. Had he taken a strong line on his return, he could have succeeded in this policy; but perhaps for understandable domestic reasons he had hesitated. Matters had become more difficult with his successors. Mrs. Gandhi said that India was anxious for friendship with Pakistan and her other neighbours. This friendship was a necessity. India was faced with huge problems and could ill afford confrontation. President Zia talked of friendship but raised issues which did not create the right atmosphere and excited Indian people. He raised Kashmir, though it had been agreed at Simla to leave it aside. During the communal disturbances last summer, which the Indian Government had deplored, the Pakistanis had reacted in an unhelpful way. India had nothing against friendship between the US and Pakistan, but was worried about the form the relationship might take. There was a feeling that it might be directed against India, though not intentionally or necessarily in the immediate future. Mrs. Gandhi recalled that President Eisenhower had told the Pakistanis that arms supplied by the US were only to be used against the Communists, but these had eventually been used against India. However, India would continue to try for friendship with Pakistan, no matter what the difficulties. Agha Shahi had been to Delhi twice over the past year and Mr. Rao would be going to Islamabad, perhaps in May.

The Prime Minister referred to the tremendous problems which Pakistan was facing. From its own experience, India would know what it was like to have to cope with a huge number of refugees. The hijacking incident had been appalling.

/Mrs. Gandhi

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Mrs. Gandhi said she had reason to believe that for the first time the people of Pakistan were genuinely interested in good relations with India. However, military dictatorships tended to be worried about the influence which a democracy might have on their own people.

In answer to Mr. Rao's question, the Prime Minister said that she had not discussed military assistance to Pakistan with the US Administration. Mr. Rao said that persistent reports of a US decision to provide arms to Pakistan on a massive scale had caused concern to India. The Prime Minister said that her discussions in the US had concentrated on NATO and bilateral defence matters. They had briefly touched on the Rapid Deployment Force, though not in the terms reported by the press. There was a need for a force which could be moved quickly to where it was needed but only if requested. The US had some capability to do this and the UK had a parachute regiment available; but these were not adequate to respond quickly to urgent requests. We were faced with a girdle of conflicts around the world and any one of these conflicts might escalate. The question of an RDF had therefore been discussed briefly in Washington and she had stated that the UK would wish to make a modest contribution to such a force.

The Prime Minister said that following Lord Carrington's trip to Pakistan, she had received a letter from President Zia asking her to use her influence in Delhi to remove the deep-seated doubts and suspicions which continued to thwart the development of relations between India and Pakistan, and to explain Pakistan's genuine need to arm itself against an external threat. President Zia hoped that she would assure Mrs. Gandhi of Pakistan's genuine desire for friendship and the fact that Pakistan had neither the wish nor the capacity for an arms race with India. Mrs. Gandhi said there would be no arms race if Pakistan did not buy sophisticated modern weapons. She observed that all the new Pakistani airfields were along the Indian, not Afghan, border. She wondered how Pakistan could be expected to help over the Afghan crisis. The Russians took the view, with or without reason, that the refugees in Pakistan were in many cases not genuine. They

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used Pakistan as a base for insurgency. Supplying arms to Pakistan would only make the Russians dig their toes in and feel that they could not cede Afghanistan to influences hostile to them. The Prime Minister said that it was possible that, with the experience of Afghanistan, Pakistan would realise that its future lay in friendship with India. Mrs. Gandhi hoped this was so and thanked the Prime Minister for passing on President Zia's message.

The Prime Minister said that she had had the impression following Lord Carrington's visit to China that the prospects of friendship between that country and India were brighter. Mrs. Gandhi replied that, once again, it was she who had taken the initiative in trying to improve relations. Though she had been ignored to begin with, diplomatic relations had been re-established between the two countries and some agreements signed. Relations were not ideal, but India was working to improve them. The Chinese Foreign Minister was due to visit Delhi in the near future, but the dates which had been proposed conflicted with a UN conference. The Prime Minister said that, in the dangerous situation existing today, great efforts must be made to achieve an understanding with other countries.

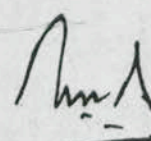
The Prime Minister said that she had heard that the Saudi Foreign Minister's visit to Delhi earlier in the week had been successful. Mr. Rao said that the latter had confirmed what the Prime Minister had said about the policy making process in the US. The Saudi Foreign Minister had reported that, during his recent visit to Riyadh, Secretary Haig had made it clear that no firm conclusions should be drawn about the attitude of the US Administration for some time to come. Mrs. Gandhi said that, while she agreed with the Prime Minister that the Reagan Administration had not made up their minds on a number of issues, she had the impression that some of their statements aggravated rather than softened the situation. Mr. Rao continued that, bilaterally, the Saudi Foreign Minister's visit had been very important. New areas of co-operation had been identified and Protocols signed. The Prime Minister said that she hoped to meet Prince Saud in Riyadh. In answer to the

/Prime

Prime Minister's question, Mrs. Gandhi said she had not visited Saudi Arabia herself, though her father had done so.

Returning to the Iran/Iraq conflict, the Prime Minister said it would be a great achievement if the Non-Aligned Group could resolve it. Mrs. Gandhi said that the prestige of the two sides was involved. Mr. Rao added that, though the Non-Aligned Group had the goodwill of both sides, there were no hard issues to get to grips with. When the Prime Minister remarked that the conflict had started over differences about the Shatt-el-Arab, Mr. Rao said that the Iranians had taken the line that there would be no difficulty over resolving substantive issues, once the Iraqis had withdrawn. Sir John Graham asked whether they had insisted on observance of the 1975 agreement. Mr. Rao conceded that the Iranians would want to use that as a basis for discussion, but they were not inflexible about it. Bani Sadr had made it clear that Iran would be flexible on substantive issues. However, Mr. Rao did not rule out the possibility that Iran's position would harden once negotiations started. He said that both sides agreed that there must be a package solution. They accepted that specific aspects of the conflict could not be taken in isolation. Mrs. Gandhi said that the various issues would have to be resolved simultaneously so that neither side would lose face. Mr. Rao explained that when the Iranians said that a ceasefire and withdrawal of troops must take place simultaneously they meant that a decision about both must be taken at the same time and that withdrawal must follow as soon as possible after a ceasefire. Mrs. Gandhi recalled that at the start of the conflict, dignitaries from both sides had visited India and urged the latter to brand their opponents as the aggressors. Mr. Rao commented that both sides could only agree to a fact-finding mission on the understanding that its purpose was to identify the aggressor. It would be better to deal with the issues and leave the allocation of responsibility on one side.

18 April 1981



CONFIDENTIAL

Subject filed as India,
Pt 1: Visit 1981, Policy

SUMMARY NOTE FOR THE RECORD OF A TÊTE A TÊTE DISCUSSION BETWEEN
THE PRIME MINISTER AND THE PRIME MINISTER OF INDIA, MRS. INDIRA
GANDHI, IN DELHI ON 15 APRIL 1981 AT 1500 HOURS

US/Indian Relations

The Prime Minister told Mrs. Gandhi that the world seemed to her to be an increasingly dangerous place. This being the case, it was a pity that relations between India and the United States were not closer. It was not easy to understand the difficulties which had arisen. One would have expected there to be an affinity between the world's two largest democracies. Was there anything that Britain could do to help?

Mrs. Gandhi said that in earlier days, her personal relations had been very good with more than one American President. She had got on well with both President Kennedy and President Johnson. But there came a time when India put a number of specific requests to the United States. In a year of serious drought, they had asked for wheat and been refused. The Russians had supplied it instead. Relations between the Indian Government and President Nixon had never recovered from this. Similarly the US had refused to help India establish a state steel industry. Here again the Soviet Union had been willing to assist. Finally, the Americans had refused their help during hostilities between India and Bangladesh.

Mrs. Gandhi was at pains to make it clear that she had no sympathy with Communism as such. She was experiencing acute difficulties with the Communists in a number of Indian states and was at a loss to know how to tackle them. The Soviet Union had failed to back her in the 1977 election, preferring an outcome in which she was narrowly returned to power. In the event they had miscalculated and she had been defeated. But the fact was that the Russians had helped on a number of crucial occasions. An additional factor was that they were willing to accept payment for their exports to India in Rupees.

/Afghanistan and Pakistan

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Afghanistan and Pakistan

There was relatively little discussion on this occasion about Afghanistan and Pakistan. On Pakistan, Mrs Gandhi had said that whatever their assurances, the fact was that the Pakistanis had been prepared to use whatever arms they had against India. On Afghanistan, Mrs Gandhi was inclined to argue that the Russians had always feared encirclement and that there had been things going on in Afghanistan, before the Soviet intervention, calculated to stimulate Soviet sensitivities about Afghanistan's future orientation.

Immigration and the Nationality Bill

The Prime Minister told Mrs Gandhi that many of the accusations made against the Nationality Bill were very unfair. She referred to the amendments to it made in response to the wishes of the Indian Government. The rights of existing UKPH to enter the United Kingdom would be unaffected. Mrs Gandhi said that she was bombarded with correspondence about UKPH. Was there anything the British Government could do to increase the numbers being taken. The Prime Minister had replied that this would be difficult at a time when there were 2 million unemployed in the United Kingdom and in the aftermath of the Brixton riot. Britain was still taking very large numbers of immigrants from India each year. The Prime Minister asked whether it would be acceptable if UKPH were substituted for dependants. This was something which could be arranged administratively. Mrs Gandhi replied that she did not know whether this would be acceptable.

Commercial Relations

The Prime Minister said that she hoped the Indian Government would consider very seriously the British tender for the Paradip steel plant. British industry could be relied upon to do a good job. The contract would be very helpful to us in the context of the unemployment problem. Mrs Gandhi said that it was very difficult to take quick

/ decisions

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decisions in matters like this. If things happened too rapidly, there was always a risk of the accusation that money had changed hands.

Internal

Mrs. Gandhi said that her visit to the North East had been a great success.

15 April 1981

File

ds

Gultra

18 March 1981

(No 'T' message followed
— correspondence concluded)

I am replying on the Prime Minister's behalf to your letter to her of 16 March. The message which you forwarded from Mrs. Gandhi has been placed before the Prime Minister.

MICHAEL ALEXANDER

P

His Excellency Dr. V.A. Seyid Muhammad

010
No. LON/POL/123/2/81



INDIA HOUSE,

ALDWYCH,

LONDON, W.C.2.

DR. V.A. SEYID MUHAMMAD

16th March, 1981

Dear Prime Minister,

I have the honour to convey the following message of thanks from my Prime Minister Smt. Indira Gandhi in reply to your message of greetings on India's Republic Day:

Begins:

"On behalf of the People and Government of India, and on my own behalf, I thank you for the good wishes extended to me and the people of India on the occasion of our Republic Day.

We look forward to your visit. We are confident that our discussions will further strengthen the friendly ties existing between our two countries

INDIRA GANDHI "

ENDS

With assurances of my highest consideration.

(V. A. SEYID MUHAMMAD)

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON SW I.



re 5
ndra

10 DOWNING STREET

From the Private Secretary

23 February 1981

Message from Mrs Gandhi

Further to your letter to me of 13 February, I enclose the signed text of the Prime Minister's message to Mrs Gandhi. As you will see, it is a somewhat amended version of the draft enclosed with your letter under reference.

I am sending copies of this letter and its enclosure to Stuart Hampson (Department of Trade), Ian Ellison (Department of Industry) and Julian West (Department of Energy).

M. O'D. B. ALEXANDER

R.M.J. Lyne, Esq.,
Foreign and Commonwealth Office.

RH

subject
cc Master
Ops

ne JS



10 DOWNING STREET

c fco
Trade
Ind.
Energy.

THE PRIME MINISTER

23 February 1981

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T 31A/81

Thank you for your letter of 27 January. I had been about to write to you again but I am glad that you decided to reply without awaiting a further letter.

Let me repeat how delighted I am at the prospect of visiting India in April. I am looking forward to a really thorough exchange of views about all the issues and problems which are on your mind and mine. I fully agree with your underlying thought that we must keep the friendship between our two countries in constant repair. There is so much potential, both for strengthening our bilateral ties and for bringing to bear on world issues our respective influences as leading members of the Commonwealth. I think we have made good progress in recent months and I was delighted to hear of the splendid reception given to the Prince of Wales. I am so glad that you thought his tour a success.

We shall have an opportunity during my visit to discuss the international economic issues you mention. I share your disappointment that during the last year the international community has not been able to reach a greater measure of agreement on how to tackle the economic difficulties which it faces. I know that these bear particularly heavily on many developing countries. The problems of the industrialised and developing worlds are linked. If we can move together towards solutions, the prospects for international recovery will be

/ strengthened.

B

strengthened. Like you, I hope that the Summit which Chancellor Kreisky and President Lopez Portillo are organising will provide an opportunity for constructive discussion. We know from our experience of Commonwealth gatherings the value of personal contacts in informal meetings.

But I believe that the greatest help which countries such as the United Kingdom can extend to developing countries is to enlarge the markets which we offer to them. To do this we need to achieve a higher rate of growth. Inflation is the major constraint on the revival of the British economy. The struggle against inflation must therefore be the first priority for the British Government. We shall, of course, continue to resist pressures for protectionist measures. But some of these pressures are very great. And some, exceptionally, raise social and economic considerations which cannot be ignored. Nonetheless, it is my firm intention to keep our markets as open as possible to the products of the developing world.

I note the emphasis you place upon the transfer of technology. This often goes hand in hand with private investment. I am confident that the exchange of ideas at the Indo British Economic Committee will lead to a growing flow of investment from this country to India as well as a growth in trade in both directions. I hope that trade enterprises in our two countries will make fuller use of the expanding opportunities for mutual co-operation in India and the United Kingdom, as well as in third countries. This seems to me the best way of achieving an exchange of trade satisfactory to both sides. John Biffen indicated at the recent IBEC discussions how we can assist with this.

The solution of international economic problems is impeded by the persistence of tension and conflict in various parts of the world. The complex and dangerous situation which has arisen as a result of the Soviet invasion of Afghanistan and the continuing war between Iran and Iraq is a source of anxiety to

/ us all.

us all. I know that you have been considering these issues at the Non-Aligned Meeting in New Delhi and I have been following developments there with attention. I look forward to hearing your views on what part the NAM can play in the resolution of these disputes. Perhaps there are now some rays of hope. At least the long overdue and very welcome release of the American hostages has reduced one source of tension.

I hope we can have a full discussion of the Afghanistan problem when we meet. I know that there are some differences of approach on this. For our part we here hope that the appointment of a UN Representative will help progress towards a solution. We remain concerned about the long-term implications of Soviet military intervention in an independent and non-aligned country. We believe that the achievement of complete Soviet military withdrawal must remain in the forefront of any discussions aimed at producing a solution. It seems to us essential that the international community as a whole should continue to assert the unacceptability of the Soviet intervention.

Your account of the Commonwealth Regional Meeting was most interesting. The special contribution that the Commonwealth can make has been well demonstrated by the events leading up to the independence of Zimbabwe and by the mounting of a Commonwealth observer team for the recent Uganda elections. We shall have an opportunity to consider other possible areas of co-operation at the Heads of Government Meeting in Australia.

Thank you, finally, for the account in your letter of 29 October of internal developments in India. This was of particular value since I want there to be the fullest possible understanding in this country of India's achievements and problems. I look forward to increasing my own knowledge of them during my visit, about the details of which our people are now in touch. We here intend to make every effort to ensure that the visit is an occasion for substantial progress in our relations and for

/ a real

a real meeting of minds on as many as possible of the issues referred to in our correspondence.

(SGD) MARGARET THATCHER

Her Excellency Shrimati Indira Gandhi

India



Foreign and Commonwealth Office

London SW1A 2AH

Type for PM's
Signature, as
amended.

Submit with both
Mrs G's letters.

Paul

13 February 1981

Dear Michael,

Message from Mrs Gandhi

Thank you for your letter of 4 February.

As agreed we have waited until the end of the Non-Aligned Meeting in New Delhi before submitting a reply. The attached draft, which Lord Carrington has approved, deals with points raised by Mrs Gandhi in her letter of 29 October as well as her letter of 27 January.

FILE
(PART 1)

I am sending copies of this letter and its enclosure to Stuart Hampson (Dept of Trade), Ian Ellison (Dept of Industry) and Julian West (Dept of Energy).

Yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

CONFIDENTIAL

DRAFT MESSAGE TO

HER EXCELLENCY SHRIMATI INDIRA GANDHI

Thank you for your letter of 27 January. I had been about to write to you again but I am glad that you decided to reply without awaiting a further letter.

Let me ^{repeal} ~~say first~~ how delighted I am at the prospect of visiting India ⁱⁿ ~~from 15-19~~ April. ~~I am most grateful for your invitation. I realise that it will be hot. I am looking forward to seeing you again and to having the opportunity for a really good exchange of views about all the issues and problems which are on your mind and mine.~~

I fully agree with your underlying thought that we must keep ^{the} ~~our~~ friendship ^{between our two countries} in constant repair. There is so much potential, both for strengthening our bilateral ties and for bringing to bear on world issues our respective influences as leading members of the Commonwealth. I think we have made good progress in recent months ^{and}

was delighted to hear of the splendid reception given to the Prince of Wales, ^{I am} ~~and~~ so glad that you thought his tour a success.

N.P. We shall have an opportunity during my visit to discuss the international economic issues to which you refer. I share your disappointment that during last year the international community ^{has not} ~~was~~ ^{been} ~~not~~ able to reach a greater measure of agreement on how to tackle the economic difficulties which it faces. I am conscious of the

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/special

CONFIDENTIAL

special problems created for many developing countries. The industrialised economies have to overcome economically and socially damaging levels of inflation and unemployment, and persistent low growth. It is clear that the problems of the industrialised and developing worlds are linked ~~and~~ unless we can move together towards mutually acceptable solutions the prospects for international recovery remain weak. It is no longer practical ~~for~~ for any country, or group of countries, to seek to pursue economic objectives without regard to the prospects and problems of other members of the international community. Like you, I hope that the Summit which Chancellor Kreisky and President Lopez Portillo are organising will provide an opportunity for a constructive ^{discussion} ~~dialogue~~. We know from our experience of Commonwealth gatherings the value that ~~can be derived from~~ ^{of} personal contacts in ~~informal~~ informal meetings. The Mexico summit could serve a useful purpose if it permits a real exchange ^{leading} ~~which leads~~ to a clearer understanding of each others problems.

I believe that the greatest ^{help} ~~contribution~~ which countries such as the United Kingdom can ^{extend} ~~make~~ to ~~help~~ developing countries is to enlarge the markets which we offer to them. To do this we need to achieve a higher rate of growth. Inflation is the major constraint on the revival of the British economy ^{and} ~~The~~ struggle against ~~inflation~~ ^{inflation} is ^{therefore} ~~the~~ first priority for ^{the British} ~~the~~ Government. Whilst ^e ~~we~~ carry on this struggle in preparation for renewed growth, ~~I recognise that~~ we, in common with other members of the international community, ^{must, of course,} ~~must~~ continue to resist pressures for protectionist measures. ^{But} ~~Some~~

of these a

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/of these

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^{number} of these ^{great. And} are very ~~clamorous~~. ^L Some, exceptionally, raise social and economic considerations which cannot be ignored. ^{Non-aligned} ~~But~~ it is my intention to keep our markets as open as possible to the products of the developing world.

I note the emphasis you place upon the transfer of technology. This often goes hand in hand with private investment. I hope that the exchange of ideas at the Indo British Economic Committee will lead to a growing flow of investment from this country to India as well as a growth in trade in both directions. Getting trade enterprises in both our countries to make fuller use of the ^{expanding} ~~growing~~ opportunities for mutual co-operation in India and United Kingdom, as well as in third countries, seems to me ~~to offer~~ the best ^{way} ~~prospect~~ of achieving an exchange of trade satisfactory to both sides. John Biffen indicated at the recent IBEC discussions how we can assist with this. ^{NP} The solution of world economic problems is ^{impeded} ~~not helped~~ by the persistence of tension and conflict in various parts of the world. The complex and dangerous situation which has arisen as a result of the Soviet invasion of Afghanistan and the continuing war between Iran and Iraq ^{is} ~~are~~ a ^{source of} ~~great~~ anxiety to us all. I know that you have been considering these issues at the Non-Aligned Meeting in New Delhi and I have been following developments there with ^{attention.} ~~interest.~~ I ^{look forward to hearing} ~~shall be interested to hear~~ your views on what part the NAM can play in the resolution of these disputes. Perhaps there are now some rays of hope. ^{At least} ~~L~~ The long overdue and very welcome release of the American hostages should ^{have reduced} ~~defuse~~ ^L one source of tension.

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^{NP / (hope)}
~~entirely~~

I hope we can have a full discussion of the Afghanistan problem when we meet. I know that we have some differences of approach here. For our part we hope that the appointment of a UN Representative ^{will} ~~should~~ help progress towards a solution. We remain ~~most~~ concerned about the long-term implications of Soviet military intervention in an independent and non-aligned country and believe that ^{the achievement of} complete Soviet military withdrawal must remain ~~in the forefront~~ of any discussions aimed at producing a solution. ~~We believe~~ ^{it seems to us} essential that the international community as a whole should continue to assert the unacceptability of the Soviet intervention.

Your account of the Commonwealth Regional meeting was most interesting. The special ability of the Commonwealth to contribute constructively to the problems of the world was well demonstrated by the events leading to the independence of Zimbabwe and by the mounting of a Commonwealth observer team for the recent Uganda elections. We shall have an opportunity to consider other possible areas of co-operation at the Heads of Government Meeting in Australia.

Thank you, finally, for the account
~~You were good enough~~ in your letter of 29 October ~~to~~ ^{of} ~~write at length about~~ internal developments in India. ^{particular value since} ~~This was of~~ I thank you for that. ~~It is very valuable for us to have this account.~~ I want there to be the fullest possible understanding in this country of India's achievements and problems. ~~That is a process to which both Indian and~~

/the United

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~~the United Kingdom can contribute, thereby removing problems of misunderstanding. It would be wrong for me to comment on the specific domestic issues to which you refer. But I look forward to increasing my own ^{knowledge} understanding of them in April. ^{during my visit, about} I know that your vast and diverse country faces tremendous problems.~~

Our people are now in touch, ^{which} ~~about~~ the details of my programme. ^{we intend to make every effort to ensure that} We shall ~~do everything possible on our side to make the visit~~ ^{to} an occasion for substantial progress in our relations and for the ^a ~~creation of a deeper mutual understanding about some of the~~ ^{deal meeting of minds on as many as possible of} ~~problems~~ ^{issues} referred to in our recent correspondence. ~~I look forward~~ to it ~~enormously.~~

CONFIDENTIAL



13 FEB 1981





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



ctco

Jan

10 DOWNING STREET

THE PRIME MINISTER

9 February 1981

Dear Dr. Chanana,

I very much enjoyed meeting you on Wednesday and do hope you have enjoyed your visit to this country.

I am delighted with the enamelled peacock you presented to me and send you my sincere thanks and very best wishes.

Yours sincerely,

sgd Margaret Thatcher

Dr. C. Chanana

B

India



10 DOWNING STREET

PRIME MINISTER

You saw Mr. Chanana yesterday who left you a present. The Office have not seen it. Do you know what it was as we ought to thank. It was not the silver salver - that was given to you by Mr. Sethi.

An enamelled nameplate

(in display cabinet.)

not

5 February 1981

SUBJECT

cc Master

cc: fco

52



India

10 DOWNING STREET

From the Private Secretary

4 February 1981

Dear Sir,

CALL BY DR. CHANANA

The Indian Minister of State for Industry, Dr. Chanana, called on the Prime Minister this morning. He was accompanied by the Indian High Commissioner, and Mr. K.S. Rajan. The Secretary of State for Trade was also present.

Dr. Chanana handed over a letter from Mrs. Gandhi, about which I have written separately to Roderic Lyne. The conversation, which was of a very general character, touched on developments in the fields of technology and energy. Dr. Chanana spoke warmly about the British Leyland Metro. He and the Prime Minister agreed both about the need, and the excellent basis which existed, for cooperation between the United Kingdom and India in the industrial sector.

I am sending a copy of this letter to Roderic Lyne (Foreign and Commonwealth Office).

Yours sincerely

Richard Alexander

Stuart Hampson, Esq.,
Department of Trade.

51C



cc D/T
D/I
D/N
Tsy
JS

10 DOWNING STREET

From the Private Secretary

4 February 1981

Dated 27/1/81
(see part 1)

MESSAGE FROM MRS. GANDHI

When Dr. Chanana, the Indian Minister of Industry, called on the Prime Minister this morning, he gave her a letter from Mrs. Gandhi. I enclose a copy. You will no doubt wish to consider whether the Prime Minister should reply. It seems to me that there is probably a case for her doing so soon.

The way in which Mrs. Gandhi refers to the Prime Minister's letter to her of 19 November implies some slight surprise that she has not heard from the Prime Minister again. It was certainly envisaged at the time that the Prime Minister's letter was an interim one. Have we been remiss in not writing again?

I am sending copies of this letter, and its enclosure, to Stuart Hampson (Department of Trade), Ian Ellison (Department of Industry) and Julian West (Department of Energy).

M. O'D. B. ALEXANDER

R.M.J. Lyne, Esq.,
Foreign and Commonwealth Office.

D/K



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

2 February 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
SW1

[Handwritten initials]

Dear Tim

Thank you for your letter of 23 January with which you enclosed a copy of the letter of the same date from Sir John Buckley.

... 2 You asked for a draft reply and that is enclosed.

Yours ever

[Handwritten signature]

RICHARD RILEY
Private Secretary



DRAFT REPLY FROM THE PRIME MINISTER TO THE LETTER OF 23RD
JANUARY 1981 FROM SIR JOHN BUCKLEY

Thank you for your letter of 23rd 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. ~~In that context I was interested to have your views.~~

RESTRICTED

MEETING WITH DR CHANANA, INDIAN MINISTER OF
STATE FOR INDUSTRY

4 February 1981

BRIEF FOR THE PRIME MINISTER

Dr Chanana is visiting the UK primarily in search of a foreign car manufacturer to collaborate in establishing a public sector car factory in India. Both the project and his visit have Mrs Gandhi's blessing. He will be seeing British Leyland, Ford, Lucas and Ingersoll Engineers. All have interests in India already.

Line to take

2. In general, stress the importance we attach to trade with India. Lord Limerick's and Mr Biffen's recent visits, and your forthcoming one. On the one side, the opportunities Indian industrial development, particularly in the steel, energy and transportation sectors offer British exporters. On the other, the open market we provide for virtually all Indian products.

3. In particular, the capabilities of the UK automotive industry. HMG's recently announced support for British Leyland and the success of the Metro.

Defensive

4. Dr Chanana may raise some current Indian trading grievances.

(i) 'Folkloric' Textiles

These enjoy privileged access. HM Customs have detained some consignments. Customs acted in good faith. Steps have been taken to clarify the position. We have no wish to exclude genuine folkloric items.

(ii) Inflammable Dresses

Our sole purpose in referring publicly to the inflammability of certain Asian dresses was concern for public safety.

(iii) Ban on animal feed containing Aflatoxin

The aflatoxin content of feed based on ground-nuts and cottonseed is suspected of being a risk to child health (via the milk of cows given such feed). The ban is a temporary and precautionary measure imposed purely for health reasons.

5. Some background notes and a note on Dr Chanana are attached.

Academy

Department of Trade
CRE4/2

2 February 1981



Background

Bilateral Trade

	£m		
	<u>1978</u>	<u>1979</u>	<u>1980</u>
UK exports fob	349	456	529
UK imports cif	322	366	316
Balance	+ 27	+ 90	+ 213

Investment

2. UK largest foreign investor in India (40% of total).

Aid

3. UK largest bilateral aid donor in 1980/81 (£120m). Reduction to £87-97m planned for 1981/82 but our multilateral aid contributions are increasing.

Major opportunities in India

4. Coastal steel plant, power generation, mining, fertiliser plants, railways, machine tools, communications, automative industry. Visits by the Prince of Wales, Lord Limerick's mission, Mr Biffen (for IBEC*) and the Prime Minister (in April) show keenness of UK's interest in Indian development plans.

EC/India

5. India has a 5 year commercial cooperation agreement with the EC. Negotiations for its renewal are in train.

Indian Team

6. Dr Chanana is accompanied on his visit by Mr K S Rajan - Secretary of Industrial Development and Mr M C Gupta - Joint Secretary of Mining Industry.

*Indo-British Economic Committee



CHARANJIT CHANANA

Minister of State for Industry since March 1980.

Mr Chanana is a Hindu born in 1932 in what is now Pakistan. He is an academic (MA Delhi School of Economics) and has published several papers on Indian agriculture and economic development. He was elected to the Rajya Sabha for a six year term in 1976 as Congress (I) MP for Delhi. During the 1975-77 Emergency he worked closely with the late Sanjay Gandhi on the "Habitat" (rehousing) campaign. As Minister of State for Industry he reports direct to Mrs Gandhi.

Mr Chanana has travelled widely abroad, sometimes as a visiting professor. He is married with two children.

SECRETARY OF STATE FOR TRADE'S VISIT TO INDIA, 16-23 JANUARY 1981

MEETING NOTE NUMBER 3

MONDAY 19 JANUARY: MINISTER OF STATE FOR INDUSTRY

Present: Dr Charanjit Chanana, Minister of State for Industry
Mr Ghosh
Mr Rhajan

Secretary of State
Sir John Thomson, High Commissioner
Mr Mathrani
Mr Garrod

The Secretary of State began by expressing interest in the forthcoming visit to London by Dr Chanana and was told that this would take place in the first week in February. The visit would follow one to Paris at the invitation of the French Industry Minister where future projects in India would be discussed.

Dr Chanana said that he wished to explore greater economic co-operation which was in the mutual interest of the United Kingdom and India and which would revitalise industry in his country. As trading patterns changed the European nations needed co-operation with countries which could absorb new technology, since otherwise they could not meet competition from countries like Japan. At present India was rated as the most profitable place for "converting software into hardware". Mr Ghosh said that hitherto India had been sending to the United Kingdom low price, labour-intensive tools where the United Kingdom was not competitive. He was not just seeking a one-way transfer of technology but joint production in India and the United Kingdom to serve both domestic markets and exports to South East Asia. He had told the recent British Machine Tools mission that Indian industry could attract technology from a number of sources, but common production was the aim. He could name 20 lines at least (including mining equipment) where this was an attractive opportunity; this list was being discussed in IBEC. Mr Mathrani mentioned that there was already extensive co-operation in the field of coal mining machinery, and a further ABMEC mission would be visiting India later that month.

The High Commissioner noted that the 5 year plan provided for a growth in engineering exports, but this had not yet materialised. He had the impression that the initiative for increasing sales to the United Kingdom had largely come from British private sector companies. Mr Ghosh suggested that some mechanism such as IBEC was needed to generate greater exchanges. Mr Mathrani said that IBEC did not constitute an appropriate instrument because of its infrequent meetings. Mr Rhajan felt that the reopening of the AIEI office in London would be of significant advantage in this context.

Mr Ghosh said that British companies such as ICI and British Leyland seemed unwilling to allow their Indian subsidiaries access to the advances made by the parent company. (The High Commissioner expressed

surprise at the reference to ICI in this context. Dr Chanana said that there should be a specific clause in transfer of technology agreements guaranteeing updating so that processes do not become obsolete.

Mr Ghosh said that for 10 years there had been discussion on joint work in third countries, but the desirable concept had not been made to work. In the heavy electrical field there were some very large contracts in prospect in South East Asia and Africa which could provide scope for joint ventures. Mr Mathrani said that following an approach from the AIEI Sir Peter Carey had written to 30 companies to draw their attention to the scope for co-operation. Davy and Humphreys-Glasgow could provide examples of where this was already happening.

Mr Ghosh said that he was not just talking of the incorporation of components but of joint tendering. This could only be successful if it was seen to be in the mutual interest of companies. The High Commissioner added that mutual trust was also needed; companies who had never worked with a partner were nervous about incurring penalties through the fault of that partner.

Dr Chanana said that Mr Rhajan had recently visited Ford for discussions on heavy vehicles, but he was really interested in the total range of vehicle manufacture, including the Mini Metro. The Secretary of State explained that BL's plans for investment in India were inevitably delayed while the British Government considered the BL corporate plan. He recognised that it would make Dr Chanana's visit to London more productive if this issue had been resolved by then. Dr Chanana said that he had also received approaches from companies in France and Germany covering the complete vehicle range; he was determined that India should have the best technology available. The High Commissioner said that any British company would be anxious to supply the best in order to beat Japanese competition.

Mr Ghosh expressed disappointment about trade in primary products such as tea where the United Kingdom was a large buyer. The High Commissioner suggested that the lost market might be linked to the imposition of a 5 rupee tax on exports.

S HAMPSON
PS/SoS(T)
Room 803 VS
Extn 5422

January 1981

cc PS/SOS
PS/MFT
PS/Secretary
Mr Caines
Mr Dick
Mr Benjamin
Mr Archer FCO

file

ASG

30 January 1981


BF 3.2.81

The Prime Minister is very happy to see Dr. Chanana on Wednesday 4 February at Downing Street. We have made a note that your Secretary of State would like to accompany the Doctor, and could your Department's brief please reach us by Tuesday 3 February. I am copying this letter to Roderic Lyne, Foreign and Commonwealth Office.

CS

Mrs. Catherine Capon,
Department of Trade.

CB

 PART 1 ends:-

28. 1. 81

PART 2 begins:-

30. 1. 81

