



CONFIDENTIAL

(4)

Prime Minister

SUMMARY

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PRIME MINISTER'S VISIT TO MEXICO: 21 - 25 OCTOBER 1981

1. The Prime Minister visited Mexico from 21-25 October, partly to attend the Cancún Conference and partly to sign a Memorandum of Understanding in respect of a major British contract in Mexico (para 1).
2. Politics affects nearly all major commercial contracts, and we have lost several in the past. Davy Loewy's bid for the SICARTSA turnkey project was the best from the start but they could have lost it to the French. President Mitterrand was making a State Visit to Mexico before Cancún, and the French position looked very strong (paras 2-4).
3. Our counter-ploy was to let the Mexicans know that if Davy Loewy won the contract the Prime Minister would be prepared to make an informal visit to Mexico City after Cancún to set the seal on it. This worked well; and after ups and downs Davy Loewy won the competition a few hours before President Mitterrand's arrival in Mexico. President López Portillo asked Mrs Thatcher to spend an extra day here, and at an informal ceremony he and the Prime Minister signed a Memorandum in respect of the contract. They got on very well, and the President was delighted by Mrs Thatcher's visit (paras 5-9).
4. This success has already had public effects; but the biggest change is in the attitude of the official establishment towards Britain. Now we have a new position in Mexico on which to build. The Letter of Intent has still to be converted into a contract but all should come well in the end. Davy Loewy's success reflects credit on all concerned (paras 10-11).

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BRITISH EMBASSY,
MEXICO CITY.

4 November 1981

The Right Honourable
The Lord Carrington KCMG MC

My Lord,

The Prime Minister visited Mexico from 21 to 25 October. Between 21 and 23 October she led the British delegation to the Summit Conference on International Cooperation and Development at Cancún; and between 24 and 25 October she made an informal visit to Mexico City at the invitation of President López Portillo to sign a Memorandum of Understanding in respect of the success of Davy Loewy Ltd in winning a Letter of Intent to build a steel plate mill worth some £330 million on the Pacific coast of Mexico. The proceedings of the Cancún Conference have been recorded separately. In this despatch I report on the ensuing bilateral visit.

2. This visit, arranged very much at the last moment, was a product of the peculiar political circumstances in which major commercial contracts are negotiated and won in Mexico. The Mexicans themselves tend to claim that major deals are concluded on their merits. Certainly merit is essential. But the history of the last few years has shown clearly enough that when merits are roughly equal or at least comparable, and when the deal is big enough to attract the attention of those at the top, the final decision is often tilted by political considerations. In 1979 a personal intervention by the King of Spain snatched a major contract from a British firm at the last moment; and the loss
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caused to British industry by our inability to meet President López Portillo's last minute proposal for a State Visit in Britain in January of this year has been estimated by one British firm at over a hundred million pounds. This time, with the help of the Prime Minister, we were able to play the game the right way. It is worth seeing how it was done.

3. Tenders for a turnkey project for the construction of a steel plate mill were opened by SIDERMEX, the Mexican state steel corporation, on 17 September. There were four competitors for the so called SICARTSA II project: a group led by Davy Loewy, a Franco-German consortium, an Italian consortium, and a Japanese consortium. Davy Loewy's bid was the cheapest, with the Italians second, the French and Germans third, and the Japanese last (some 60% higher than Davy Loewy). The British financial offer supporting Davy Loewy was also the best from the start. According to the rules the bidders could not alter their prices after submission of the original tenders, but they could change their supporting financial offers. In the event all three of Davy Loewy's competitors told the Mexicans that they would be willing to lower their prices, and the French and Japanese improved their supporting financial offers to match or beat Davy Loewy's. A period of intensive detailed negotiations followed the opening of tenders. It is not recorded here, but so far as Davy Loewy is concerned it involved continuous discussion not only with SIDERMEX but also with those concerned in supporting the Davy Loewy offer in London. The difficulties were both technical and political. The fact that Davy Loewy, despite their experience in building rolling mills, had never made a large plate mill, and that many of those working in SIDERMEX already had experience of and preference for French and German equipment, caused considerable opposition to Davy Loewy within SIDERMEX; and those at the top who favoured Davy Loewy for other reasons had difficulty /in



in defending their preference on technical grounds.

4. But the political factor was equally important. On 22 September SIDERMEX informed the four competitors that its final decision would be postponed until 19 October. This was the day that President Mitterrand was due to begin a State Visit to Mexico, and it looked at one point as if this contract would go to the Franco-German consortium in the way that similar contracts had been awarded on comparable occasions in the past. In this case the French position looked particularly strong, following the Franco-Mexican declaration on El Salvador, the personal friendship between the French and Mexican Foreign Ministers, and the political importance which the Mexican Government seemed anxious to attach to its relationship with France. For their part the French worked to make the most of their advantage.

5. The only way to resist a ploy of this kind was to mount a counter-ploy. It was not of course possible or desirable to respond to French efforts in kind. Moreover it was too late to take up the Mexican Foreign Minister's invitation to the Prime Minister in March to pay an official visit to Mexico around Cancún: President Mitterrand was already coming beforehand, and the Chinese Prime Minister afterwards. The answer was the suggestion set out in your telegram No 379 of 29 September that we should let the Mexicans know that if Davy Loewy won the contract the Prime Minister would be prepared to make an informal visit to Mexico City immediately after Cancún to set the seal on it.

6. The problem was how best to play this card. In the event it turned out more easy than expected. I first spoke to our known ally, the Head of SIDERMEX, on 6 October. He said he thought that the Prime Minister's willingness to come to Mexico City would greatly help and please President López Portillo whether she came
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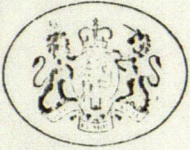


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or not. If Davy Loewy won the contract and she came, then the President would be able to interpret the contract as one of the fruits of Cancún. He added that he would now be fortified in resisting political pressures from the French. Three days later I spoke to President López Portillo's Private Secretary on the same lines. From his reaction I judged that we had so far done no more than hold the position. Around the same time we learned from within SIDERMEX that people in the President's office had been pressing SIDERMEX to give the contract to the Franco-German consortium. But on 14 October I was reassured to hear from Lic Oteyza, the Minister of Industry, that resentment against the French for the performance of the Compagnie Francaise des Petroles over oil prices in July had still not subsided, and that Davy Loewy were still favourites. On 16 October Lic Castañeda, the Foreign Minister, told me that he personally hoped that the British would win the contract and that the Prime Minister would be able to sign something to this effect after Cancún. This was somewhat surprising from him; but I later heard that the French had caused great irritation in the Foreign Ministry and Presidency by pressing for far too much from the Mitterrand visit. In the event Davy Loewy were finally declared winners of the competition a few hours before President Mitterrand's arrival in Mexico on 19 October, and were given a Letter of Intent from SIDERMEX on the same day.

7. The Prime Minister's original intention had been to sign a document either at Cancún or during a brief descent on Mexico City on 24 October immediately after the Cancún Conference. But on 19 October I received a message from the President to say that he hoped that the Prime Minister would be able to stay an extra day in Mexico City after Cancún and to sign a document with him at his official residence in Mexico on the morning of Sunday 25 October. The Prime Minister agreed. She flew up from Cancún /early

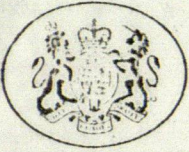
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early on 24 October, and spent the day in Mexico City. A copy of her programme is at Annex A. She lunched with those Mexicans and British most directly involved in the contract, including the Mexican Deputy Minister of Industry. During the afternoon she visited the American British Cowdray Hospital, the Diego de Rivera mural paintings in the National Palace, the site of the main Aztec temple in Tenochtitlán, and the Museum of Anthropology and History. In the evening she attended a dinner where she met the Ministers of Commerce and Education as well as other distinguished Mexicans and leading members of the British community. The dinner was enlivened by a minor earthquake which added to the gaiety of the occasion.

8. The ceremony the following morning at the President's official residence was easy and informal. The Minister of Industry spoke briefly about the importance of the contract for Mexico's economic development, and the Head of SIDERMEX read out the text of a Memorandum of Understanding (copy at Annex B) which was signed by the President and the Prime Minister. The Prime Minister made a brief speech (copy at Annex C). The President then wound up briefly but warmly. He said that the agreement was an example of a just and respectful relationship between the North and the South, and in this case could be regarded as one of the fruits of Cancún. The Prime Minister then left for the airport where she was seen off by the Minister of the Interior and the Deputy Foreign Minister.

9. At the airport I happened to overhear the Deputy Foreign Minister briefing the Minister of the Interior on the ceremony at the President's house. He said it had been a simple affair of the kind the President most liked, and that as before the President and the Prime Minister had got on very well. A few days later I called on the President's Private Secretary. He
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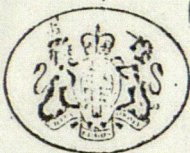


said that Mrs Thatcher had enjoyed a great success both at Cancún and in Mexico. As someone who had been in the room during most of the Cancún Conference, he could assure me that she had shone both for the quality of her interventions and for her skill in debate. He remembered particularly her short but immensely effective speech on agricultural and food problems. The President had not only been impressed by the Prime Minister but also most touched by her courtesy towards him, in particular when she had spoken for all in thanking him at the end of the conference. The President had been delighted by Mrs Thatcher's brief visit to Mexico afterwards.

10. It is good to be able to record such a striking success. It has already had its public effects. The press image of Britain as a mangy and idle old lion with a Northern Irish thorn through its paw is being changed. The manner in which we gave Belize independence with Mexican support had already put us in a new and better light. At Cancún Mrs Thatcher won credit for helping to persuade President Reagan to take a more liberal line on some of the issues which had attracted public attention. Now there is the prospect of close Anglo-Mexican cooperation in a project vital to Mexico's industrial future. But if the press is more friendly, the biggest change is in the official establishment from which sooner or later public opinion takes its cue. President López Portillo has made a gesture of goodwill towards Britain in general and the Prime Minister in particular. Although his power is declining, he still remains an all but absolute monarch until next December. Moreover his successor seems more likely to follow him than he himself was to follow his predecessor six years ago. In short we have a new position in Mexico on which we must seek urgently to build.

11. As for the SIDERMEX project itself, we have still to convert a Letter of Intent into a contract within the 60 days

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from 19 October. There are some difficulties which remain to be resolved, and our competitors have not yet gone away. But with the signatures of the President and the Prime Minister on the Memorandum of Understanding it is hard to believe that all will not be well in the end. The enterprise has so far occupied hundreds of people over several years of effort in both Britain and Mexico. It should now provide some 28,000 man years of work in Britain alone. Davy Loewy's success is a product of close cooperation between British industry and the Government, in particular the Department of Trade, the Export Credits Guarantee Department and the Overseas Development Administration. It does credit to all concerned.

I am, My Lord
Yours faithfully,

Crispin Tickell



PRIME MINISTER'S VISIT TO MEXICO CITY

PROGRAMME

Saturday 24 October

- 1145 Prime Minister and party arrive Presidential Hangar, Mexico City Airport
Greeted by Deputy Foreign Minister Lic. Alfonso Rosenzweig-Diaz
- 1155 Prime Minister and No 10 party, Sir K Couzens and Sir Peter Preston depart Airport for Residence of HM Ambassador
- 1230 Prime Minister and party arrive Residence
- 1300 Prime Minister meets Embassy and British Council staff and wives
- 1330 Lunch at Residence for those involved in the Sicartsa II project
- 1515-1600 Prime Minister, accompanied by HM Ambassador and members of the No 10 party, visits American/British Cowdray Hospital
- 1630 Prime Minister and party visit Templo Mayor and Murals in National Palace. Accompanied by guide at Templo Mayor, Arqu. Eduardo Matos
- 1715 Prime Minister and party visit Anthropological Museum - guide Sra Marva Gutierrez
- 1800 Prime Minister returns to HM Ambassador's Residence
- 2000 Dinner at Residence

Sunday 25 October

- 0845 Prime Minister, accompanied by HM Ambassador, Sir P Preston and others, leaves Residence for Los Pinos
- 0900 Talks with President and Signing Ceremony
- 0945 Leave Los Pinos and drive to Airport with Deputy Foreign Minister Manuel Tello



1015

Arrive Presidential Hangar, Mexico City
Airport. Met there by Interior Minister
Professor Olivares Santana

Departure Ceremony

1045

VC10 departs



Memorandum of Understanding concerning Cooperation in the Steel Industry Sector and in particular the Development of Stage II of the SICARTSA Steelworks.

The Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Republic of Mexico acknowledge that the background of cooperation between the United Kingdom and Mexico in the development of the Mexican steel industry has over many years been of great benefit to both countries.

The two Governments reaffirm their desire to promote further cooperation in the steel industry sector through the development of existing contacts in the fields of research, consultancy, training and the application of new technologies. To this end the cooperation agreement concluded between SIDERMEX and the British Steel Corporation in April 1981 provides an important contribution.

The two Governments further recognize that mutual collaboration between the two countries and the expansion of the Mexican steel industry will be substantially increased by the decision taken by Siderurgica Lazaro Cardenas - Las Truchas S.A. under the provisions of Mexican legislation on international tender to choose Davy-Loewy Ltd for the award of a contract for the engineering, equipment supply, civil works, assembly, installation, testing and commissioning of a complete plate mill with a production capacity of 1.5 million metric tons which will form part of the second stage of the SICARTSA steel plant at Lazaro Cardenas - Las Truchas in the State of Michoacan. Davy-Loewy Ltd will make every effort to ensure that the best British technology is incorporated in all aspects of this project.

This project will be undertaken by Davy-Loewy Ltd and Desarrollo Técnico S.A. on the basis of the following financial terms:

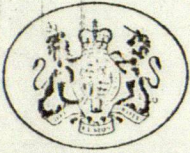


1. In recognition of the great importance of the project to the further development of the Mexican economy and the mutual interests of the two countries, the Government of the United Kingdom of Great Britain and Northern Ireland in the context of a United Kingdom content of approximately £200 million will provide a non-repayable grant for this specific contract equal to 17.47% of the UK element of the contract, up to a maximum of £34.94 million.
2. Export credit finance guaranteed by the Export Credits Guarantee Department and arranged by Lloyds Bank International will be made available to SICARTSA for the balance of the UK element repayable at 7.75% interest per annum over 20 years from date of signature of contract, with no repayment for the first seven years.
3. Export credits will be made available to SICARTSA to cover local costs and European Community members' costs of the project to a maximum amount equal to 15% of the value of the UK element, on the same terms as in sub-paragraph 2 above.
4. In addition Lloyds Bank International will provide the balance of the cost of the project in Eurodollar financing on the best terms available.

The two Governments reaffirm their desire to promote further cooperation in projects in this sector.

MEXICO D.F. 25 October 1981

/GOVERNMENT



GOVERNMENT OF THE UNITED
MEXICAN STATES

Lic. José López Portillo
Constitutional President

Siderurgica Lazaro Cardenas
Las Truchas S.A.

Lic. Jorge Leipen Garay
Managing Director

GOVERNMENT OF THE UNITED KINGDOM OF
GREAT BRITAIN AND NORTHERN IRELAND

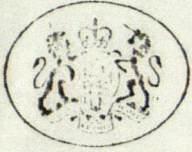
The Rt. Hon. Margaret Thatcher MP
Prime Minister

Davy-Loewy Limited

Mr Roy Exley
Managing Director

Desarrollo Técnico S.A.

Ing. Crescencio Ballesteros Ibarra
Chairman



SPEECH BY THE PRIME MINISTER AT A CEREMONY IN THE OFFICIAL
RESIDENCE OF THE MEXICAN PRESIDENT ON 25 OCTOBER

Mr President, I am most grateful to you for your invitation to Mexico. For a first visit this is a remarkable occasion. I have already had the pleasure of working with you during the last three days at a Conference of significance to the whole world, and I take this opportunity to thank you warmly for your hospitality and to applaud your skilful and effective chairmanship. I am very happy that this great international occasion should be followed by another great occasion which concerns Mexico and Britain.

The contract we are here to celebrate today is the second in a series which has brought together the Mexican and British steel industries. For such a rising industrial power as Mexico, steel is crucial, and we are glad to play a role in its development. The Sicartsa II project is, I believe, the largest single turnkey contract ever undertaken in Mexico by a British company, or indeed by any foreign company. I congratulate Davy-Loewy and their Mexican partners, Detec, and am delighted to endorse their achievement by signing this Memorandum of Understanding.

But this contract - important as it is to both of us - represents only one aspect of Anglo/Mexican trade. The character of that trade has of course changed over the years as Mexico's

/industrial



industrial growth has proceeded. Our relationship has become both more complex and more fruitful as befits partners in industry. We are working together in banking, in investment, in development of energy resources, indeed across the whole board of industry and technology. The traffic goes both ways. You will have noticed, Mr President, our recent purchases of Mexican crude oil and our interest in new Mexican refining techniques.

Just as the Cancún Conference has shown Mexico's growing weight in the world, so this contract shows the growing common interest between Mexico and Britain. Let us hope it will be the catalyst for even closer co-operation in the future.

Thank you for arranging this delightful ceremony. It is a very happy occasion, one that will remain with me a long time. It marks the beginning of a new phase in Anglo-Mexican relations. I should also like to thank all those present for coming in on a Sunday to attend the ceremony.