

CONFIDENTIAL

GRS 570

CONFIDENTIAL

FM DELHI 281122Z JUL 80

TO PRIORITY FCO

TELEGRAM NUMBER 589 OF 28 JULY

INFO PRIORITY ODA, DOI

INDO-BRITISH RELATIONS: COASTAL STEEL PLANT

1. DURING A CALL MADE ON HIM ON 25 JULY BY JAY, FIRST SECRETARY (AID), TO DISCUSS VARIOUS AID MATTERS, SIVARAMAN, JOINT SECRETARY IN THE DEA, RAISED THE QUESTION OF THE COASTAL STEEL PLANT. HE SAID THE CABINET WERE EXPECTED TO DECIDE WITHIN A FEW DAYS THAT THE PROJECT SHOULD GO AHEAD. THE WAY WOULD THEN BE OPEN FOR DETAILED NEGOTIATIONS WITH DAVY AND DEMAG, AND THE DEA WOULD, FOR THE FIRST TIME, BECOME CLOSELY INVOLVED IN THE DETAILS OF THE PROJECT.

2. SIVARAMAN, STRESSING HE WAS SPEAKING INFORMALLY, SAID HE WAS UNCERTAIN HOW TO EVALUATE THE FINANCIAL MERITS OF THE BIDS. IF THE AID ELEMENT OF THE DAVY BID WAS TAKEN INTO ACCOUNT, PEOPLE (EG CHANANA, MINISTER FOR INDUSTRIES) WOULD ASK WHY BRITAIN WAS BEING GIVEN CREDIT FOR AID AT A TIME WHEN OUR PROGRAMME WAS BEING REDUCED, AT THE EXPENSE OF GERMANY, WHOSE PROGRAMME WAS INCREASING. TO JAY'S REPLY THAT THE PROPER COMPARISON WAS BETWEEN THE TWO FINANCIAL PACKAGES AND THAT THE BROADER ISSUES OF AID LEVELS WERE NOT RELEVANT, SIVARAMAN SAID IT WAS UP TO THE DEA TO ALLOCATE GERMAN AID FUNDS FOR THE DEMAG BID IF THEY WISHED. JAY SAID THAT HMG'S £100 MILLION TIED AID OFFER CAME NOT FROM OUR BILATERAL PROGRAMME BUT FROM THE QUITE SEPARATE AID/TRADE PROVISION NOW AVAILABLE TO INDIA FOR THE FIRST TIME, BECAUSE BILATERAL AID WAS FULLY COMMITTED. IF THIS AID WERE NOT USED IT WOULD REVERT TO THE POOL AT A REAL COST OF £100 MILLION TO THE INDIAN ECONOMY. AS THIS WOULD NOT BE THE CASE WITH GERMAN AID, THE DAVY BID WITH OUR AID ELEMENT REMAINED PREFERABLE. TO SIVARAMAN'S ARGUMENT THAT THIS WAS AN UNDESIRABLE USE OF AID WHICH OTHERS MIGHT FOLLOW, JAY SAID OTHER DONORS HAD KNOWN FOR SOME TIME OF THE AID/TRADE PROVISION AND THERE WAS NO REASON TO SUPPOSE THEY WOULD BE MORE INFLUENCED BY IT NOW THAN IN THE PAST. TO HIS ARGUMENT THAT MINISTERS WOULD NOT WISH TO APPEAR TO SUCCUMB TO PRESSURE, JAY SAID THE MAIN POINT WAS THE UNDENIABLE FINANCIAL BENEFIT OF THE DAVY PACKAGE.

3. SIVARAMAN SAID ANOTHER FACTOR THAT WOULD WEIGH WITH MINISTERS WAS BRITAIN'S GENERALLY UNSYMPATHETIC ATTITUDE TOWARDS THE THIRD WORLD AT PRESENT, AS EVIDENCED BY OUR RESPONSE TO THE BRANDT COMMISSION REPORT. JAY REPLIED ALONG THE LINES OF FCO GUIDANCE TEL NO 76, AND SUGGESTED THAT THIS BROADER ISSUE WAS NOT RELEVANT TO THE EVALUATION OF THE TWO BIDS.

CONFIDENTIAL

/4

CONFIDENTIAL

4. JAY WAS ASKED WHETHER HMG WOULD CONSIDER INCREASING THE £50 MILLION RTA AID CONTRIBUTION TO THE PROJECT TO HELP OVERCOME THE PROBLEMS SIVARAMAN HAD OUTLINED. HE SAID WE WOULD NEED TO CONSIDER THIS, BUT £150 MILLION WAS A LARGE AID ELEMENT IN THE PACKAGE AND MADE IT ATTRACTIVE AS IT STOOD.

5. SIVARAMAN'S INFORMAL ARGUMENTS (OF WHICH A FULL ACCOUNT FOLLOWS BY BAG) WERE NO DOUBT DESIGNED TO ASSIST THE DEA IN FORMULATING ITS EVENTUAL ADVICE. NONETHELESS, I BELIEVE HE IS RIGHT IN THINKING THAT THE DECISION ON THE STEEL PLANT WILL BE TAKEN ON POLITICAL AND NOT JUST TECHNICAL AND FINANCIAL GROUNDS. THE DAVY BID APPEARS TECHNICALLY AS GOOD AS DEMAG AND THE LAZARD'S FINANCIAL PACKAGE BETTER. WE SHALL KEEP STRESSING THIS TO OFFICIALS OVER THE NEXT FEW WEEKS. BUT WE NEED TO CONSIDER WHAT MORE WE CAN DO TO HELP THE BID AT A POLITICAL LEVEL. A CONTACT OF OURS WHO HAS SEEN THE PRIME MINISTER'S LETTER TO MRS GANDHI OF 13 JUNE, HAS SUGGESTED THAT WE OUGHT TO DRAW AN INFERENCE FROM THE FACTS THAT (A) (SO FAR AS HE AND WE KNOW) THERE HAS BEEN NO REPLY, AND (B) PRANAB MUKHERJEE, THE MINISTER OF COMMERCE AND STEEL, HAS FAILED TO TAKE UP OUR INVITATION TO VISIT THE UK, ALTHOUGH HE HAS FOUND TIME TO PAY VISITS ELSEWHERE.

6. SEE MY IFT (TO FCO ONLY).

EWANS

[COPIES SENT TO NO 10 DOWNING ST]

FCO DISTN
SAD
CABINET OFFICE

COPIES TO
DO I

THIS TELEGRAM
WAS NOT
ADVANCED

2

CONFIDENTIAL